Approved _____
Date

MINUTES OF THE House COMMITTEE ON Insurance.

The meeting was called to order by Dale Sprague at
Chairperson

3:30 xx a.m./p.m. on March 12, 90 in room 531-n of the Capitol.

All members were present except:
Representative Delbert Gross, excused

Committee staff present: Chris Courtwright, Legislative Research Department
Emalene Correll, Legislative Research Department
Bill Edds, Revisor of Statutes
Patti Kruggel, Committee Secretary

Conferees appearing before the committee:

see attached list

The meeting was called to order at 3:45 p.m. and hearings began on HB 2610.

Representative Jessie Branson, Vice Chair, Commission on Access to Health Services for the Medically Indigent provided testimony (Attachment 1) in support of HB 2610. Rep. Branson explained that the bill has been developed over the past two years by the Commission on Access to Services for the Medically Indigent and is patterned after the Oregon law, designed to provide incentives to small employers who would offer health care coverage to employees. She also expressed that the Commission is convinced that one of the most effective means of reducing the number of uninsured in Kansas is through state efforts to encourage small employers to make health insurance available to their employees and the dependents of such employees at a cost that is affordable.

Terry Leatherman, Kansas Chamber of Commerce and Industry provided testimony (Attachment 2) supporting HB 2610. Mr. Leatherman stated that the bill would apply only to employers of 25 or fewer workers, the businesses which are having the most difficult time finding affordable health insurance.

Next appearing in support of HB 2610 was Tom Bell, Kansas Hospital Association. Mr. Bell provided testimony (Attachment 3) explaining that this bill would establish a program of incentives for small employers to offer health insurance by allowing two or more employers to form a small employer health benefit plan. He stated that by entering into such a plan, employers would be given certain tax credits for amounts paid into the plan.

Jim Schwartz, Kansas Employer Coalition on Health, Inc. briefly appeared in support of HB 2610 which attempts to address some of the problems underlying the access problem for small businesses (Attachment 4).

Walter Crockett, American Association of Retired Persons provided testimony (Attachment 5) supporting HB 2610 as a comprehensive program to improve access to health care for uninsured person.

A memorandum was distributed to the Committee (Attachment 6), from the Legislative Research Department, outlining the major concepts in HB 2610.

MINUTES OF THE House COMMITTEE ON Insurance,

room 531-N, Statehouse, at 3:30 xx m./p.m. on March 12, 1990.

There were no others wishing to testify on HB 2610 and the hearings were concluded.

Representative Bryant made a motion to approve the minutes of February 26, February 27 and February 28, 1990. Representative Turnbaugh seconded. The motion carried.

The meeting was adjourned at 4:30 p.m.

GUEST LIST

COMMITTEE: Insurance DATE: 3/12

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
ALAN COBB	TOPEKA	Anderson Cobb & Assoc
W. W. Crockett	Lawrence	AARP
K. Baker	Topeka	Christie Hospital
Dick Brock	"	Ins Dept
Terry Leatherman	"	KCCI
Barry Behnke	Bushton	Ks. Close Up Program
Peggy Stroose	Bushton	Ks. Close Up
Darrel W. Yoder	Howard	Ks. Close-Up
Jim Schwartz	Topeka	TECH
Bill Pisenberger	Topeka	BCBS

STATE OF KANSAS

JESSIE M. BRANSON
REPRESENTATIVE, FORTY-FOURTH DISTRICT
800 BROADVIEW DRIVE
LAWRENCE, KANSAS 66044-2423
(913) 843-7171

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

RANKING MINORITY MEMBER: PUBLIC HEALTH AND WELFARE

MEMBER: EDUCATION
TAXATION

VICE CHAIRMAN: COMMISSION ON MEDICAL INDIGENCE AND HOMELESSNESS

MEMBER: KANSAS COORDINATING COUNCIL ON EARLY CHILDHOOD DEVELOPMENT
KANSAS SPECIAL EDUCATION ADVISORY COUNCIL

DELEGATE: NATIONAL CONFERENCE ON STATE LEGISLATURES: COMMITTEE ON CHILDREN, FAMILIES AND SOCIAL ISSUES

March 1, 1990

TO: Representative Dale Sprague, Chairman
and Members
House Committee on Insurance

FROM: Representative Jessie Branson
Vice Chair
Commission on Access to Health Services
for the Medically Indigent

Jessie

Re: Support of H.B. 2610. Creates incentives for small employers (25 or fewer employees) to provide health care benefits through group health insurance.

H.B. 2610 is referred to as the "Small Employer Incentive Bill". It has been developed over the past two years by the Commission on Access to Services for the Medically Indigent. It is patterned after the Oregon law and is designed to provide incentives to small employers who would offer health care coverage to employees. H.B. 2610 does not mandate coverage -- it is entirely permissive.

Attachment 1

The Commission has received considerable testimony from local health departments, hospitals and other providers who are increasingly feeling the impact of large numbers of people who seek primary care as well as acute care services and who are uninsured. Clinics to serve medically indigent persons have cropped up around the state, particularly in the urban areas, and are largely supported by private sources. The Commission has also traveled the state to make site visits to such agencies.

Based upon a survey conducted by the Kansas Hospital Association in 1987 as well as national data, we know that upwards of 16% of the Kansas population is uninsured for health care benefits -- in other words, some 450,000 people.

Small businesses are particularly hard hit. The U.S. Small Business Administration, Office of Advocacy, made the following statement in July, 1989:

> "----the prevalence of health care coverage increases with the size of a firm -- more than 47% of all uninsured workers are employed in firms with 1-24 employees".

According to the Kansas Department of Commerce, approximately 90% of the businesses in Kansas employ 25 or fewer employees.

Further, national data indicates that 80% of uninsureds are individuals who work full or part time or are dependents of an employee. H.B. 2610 aims to alleviate the problem of lack of access to health care services for working people in Kansas.

* * * *

Following is a synopsis of H.B. 2610:

I. VEHICLE FOR OFFERING COVERAGE

a. Any two or more employers are authorized to establish a "small employer health benefit plan" for coverage of employees and dependents

b. Small employer defined:

1. Employs no more than 25 employees who do not have health insurance or are not eligible for Medicaid or Medicare.

2. Has not provided health care coverage to employees within past two years.

3. Makes a minimum contribution to be set by the plan toward the premium on behalf of the employee.

c. Eligible employee defined:

1. Employed an average of at least 17.5 hours/week and has no other health care coverage.
2. Elects to participate in plan.

d. Plan must provide for a board of directors to operate the plan. May employ a director/marketer.

e. Commissioner of Insurance must assist, if requested, in establishing a plan.

II. INCENTIVES FOR EMPLOYERS

a. Plan not required to include state-mandated benefits.
b. No premium tax levied on employer.
c. Employer may claim an income tax credit phased out over a five-year period based on a percentage of the total premium paid or $25/mo. per employee, whichever is less.
d. Opportunity to join with other small employers to create a plan.

III. EMPLOYER/EMPLOYEE RESPONSIBILITY

a. Part I Coverage

1. If employer intends to be eligible for the tax credit provision, he/she shall pay a premium up to $40/mo/employee.
2. Employee may be required by employer to make a minimum contribution of 25% of the premium or $15/mo., whichever is less.
(Total premium = employer + employee contribution).
3. Part I coverage limits employees' responsibility (deductible) to no more than $5,000/yr. for employee coverage and no more than $7,500/yr. for family coverage. (Part I would probably be termed "catastrophic".)

b. Part II Coverage

1. Shall consist of optional benefits as designed by the plan (Board of Directors).
2. Shall reduce deductible of Part I.
3. No limit on premium.

IV. COST OF TAX CREDIT

a. Maximum of 10,000 employees to be covered state-wide. If maximum of 10,000 employees participate the aggregate tax credit would be $3M.

V. OTHER STATES

Eleven states have initiated, and several more are looking at, some type of demonstration program or state-wide program that utilizes a state subsidy to encourage the expansion of health insurance coverage to persons who do not have group coverage available through the workplace.

State subsidies generally take one of two forms -- either a direct subsidy to assist with the cost of the insurance or an indirect subsidy in the form of a tax credit.

Other approaches include increasing the number of individuals and families who can have access to health insurance, such as a Medicaid "buy in" or MekiKan "buy in". Two states, Hawaii and Massachusetts have mandated employers to provide coverage, however the Massachusetts law, passed two years ago, has not been implemented.

REPORT AND RECOMMENDATIONS ON ACCESS TO SERVICES FOR THE MEDICALLY INDIGENT

Presented By

THE COMMISSION ON ACCESS TO SERVICES FOR THE MEDICALLY INDIGENT

RECOMMENDATION: HEALTH INSURANCE THROUGH SMALL EMPLOYERS

January, 1990

HEALTH INSURANCE THROUGH SMALL EMPLOYERS

As a second part of its recommended approach to increasing the access of those without health insurance to basic health services, the Commission recommends that new legislation be enacted that would provide incentives for small employers to offer group health benefits to their employees. The Commission recommendation is embodied in H.B. 2610 which is summarized below.

H.B. 2610 creates new legislation under which eligible small employers, defined as employers with 25 or fewer employees who have not offered health insurance to their employees in the past two years, will be able to join together to create a small employer group or groups for the purpose of securing health insurance coverage for their employees. As an incentive for such employers to offer health benefits to their employees, insurance offered through a small employer group created pursuant to H.B. 2610 would be exempt from the premiums tax, would be exempt from the state mandated benefits, would allow small businesses to offer health insurance at a cost that is realistic for the small employer and his employees, and, if the small employer qualifies, allow such employer to claim a limited, decreasing tax credit over a five-year period.

Since the small employer group would have a board that is responsible for developing the plans that would be offered through the group and negotiating with carriers to market the plans, the small employer would be relieved of the responsibilities that fall heavily on the employer who does not have personnel to carry out these responsibilities as do large employers.

H.B. 2610 specifies that plans offered through small employer groups must, at a minimum, provide "catastrophic coverage" through high employee deductibles and copayments. Any additional coverage must, at a minimum, reduce the employee's liability for the cost of health services. In order to qualify for a tax credit under the bill, an employer would be required to contribute a specified percentage toward the premium costs of the catastropic coverage. The bill caps the amount of tax credits that may be claimed in any one year.

It is the consensus that 37 million Americans lack health coverage: 26 million are employed uninsured, and a million are uninsurables who are unable to purchase private, individual coverage because of high-risk conditions. A third live below the poverty line. The rest earn no more than twice the poverty level. It is also the consensus that many of the employed uninsured are employed by small businesses that do not offer group health insurance through

the workplace. Others among the employed are unable to afford the employee premium contribution that would enable them to participate in group coverage for themselves or their dependents because of the cost of the insurance. It is this group of the medically indigent that the Commission believes can be reduced if incentives are created to make it possible for the small employer to offer affordable insurance through the workplace.

Of the Kansans who do not have health insurance, perhaps as many as 80 percent are employed either full or part-time or are the dependents of persons who are employed. Since it is estimated that as many as 90 percent of Kansas businesses employ 25 or fewer employees, thus qualifying as small businesses, it can be assumed that many Kansans who are employed do not have access to group health insurance through their place of employment because it is not offered. Others have access to group health insurance through their worksite, but are unable to participate in the group either as an individual or as family because their take-home pay, which is barely adequate to cover the costs of housing, food, and clothing, cannot be stretched to include an employee contribution to premiums. Some Kansans find they are not eligible for coverage under group insurance because they have been underwritten by the carrier due to pre-existing conditions or previous illness. Others can participate in a group only by accepting restrictions on coverage.

For the small employer there are a number of barriers to offering health benefits. One such barrier is the high premiums that are the result of limited ability to spread risk among a small number of group members. Another is the cost of mandated benefits which larger employers are able to escape through becoming self insurers. Yet another is the lack of stability in the cost of health insurance. The small employer, whose profits are often marginal, cannot expose his business to premium increases that may range from 25 to 50 percent in one year and remain in business. Finally, many small employers work along side their employees and have neither the time nor the expertise to design benefit packages, to contact carriers, to negotiate bids, and to administer benefit packages.

One or two examples of what has happened in the area of employee health benefits during the 1980's serve to illustrate the burden that health benefits may place on small employers. According to a Connecticut based consulting firm, outpatient services drove up employer spending for health care during the 1980's, with outpatient expenditures growing 142 percent per person in the period 1984 - 1989 or from $245 to $592 per person. Spending on hospital services declined, but spending on hospital treatment for mental disorders and substance abuse increased, as did stays for both conditions. Spending on employees hospitalized for mental disorders jumped 132 percent. Substance abuse fees at hospitals and specialized facilities grew more than 20 percent.

Insurance premium increases during the 1980's reflected these increases in utilization as well as increased utilization of "high tech" medical procedures, and the rate of inflation in medical care which greatly exceeded the general inflation rate. Large businesses increased emphasis on managed care, employee cost sharing, and a number of other management strategies directed toward containing costs. An increasing movement toward self insurance on the part of large businesses also characterized the 1980's, as business tried to avoid costly state mandated benefits. Some larger nationwide sales and services corporations changed employment practices, except at the management level, to avoid employee benefits altogether. Few, if any, of these options were available to small business owners, whose most effective options were to drop health insurance as an employee benefit or to avoid offering health benefits.

The Commission is convinced that one of the most effective means of reducing the number of uninsured in Kansas is through state efforts to encourage small employers to make health insurance available to their employees and the dependents of such employees at a cost that is affordable. In a state with up to 90 percent of all businesses employing 25 or fewer employees, legislatively created incentives offer one way to recognize the special problems faced by such employers and to help with the resolution of such problems. H.B. 2610 creates such incentives, and thus, represents an important component in an effort to reduce the number of Kansans who lack access to health care.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

HB 2610

March 1, 1990

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on Insurance

by

Terry Leatherman
Executive Director
Kansas Industrial Council

Mr. Chairman and members of the Committee:

My name is Terry Leatherman, with the Kansas Chamber of Commerce and Industry. I appreciate the opportunity to express KCCI's support for HB 2610.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

During the past several weeks, this Committee has exhaustively analyzed the health care insurance system in Kansas. During that analysis, I feel it is safe to say these conclusions have been reached.

Attachment 2

* The medically indigent population in Kansas is significant and growing. As the number of medically uninsured Kansans increases, a plethora of economic and social problems also grow.

* A large percentage of the medically indigent population in Kansas is employed. Federal studies indicate 75 percent of uninsured Americans have jobs, or are dependents of employees. It is fair to suggest this figure represents the situation in Kansas.

* There is overwhelming statistical evidence to suggest uninsured employees most likely work for a small business. Nationally, 90 percent of workers in businesses with more than 25 employees offer health insurance programs, while only half of businesses with 25 or fewer workers have an employee health care insurance program.

A survey of KCCI members on this issue, which I have shared with this Committee, also show the same trend. In the KCCI survey, 98 percent of employers with 25 or more workers offered health insurance, while 83 percent of businesses with 25 or less employees have a health insurance plan. While the KCCI survey shows higher percentages of insurance being provided, it also clearly shows the uninsured population works for small businesses.

* A small employer's decision not to provide an employee health insurance program hinges on the cost of insurance. A large business is more attractive to insurance companies, more able to take advantage of self-insurance opportunities, and is less affected by state mandated benefit requirements. According to the Health Insurance Institute of America`, very small businesses pay a rate for insurance which is 40 to 50 percent higher than large businesses, for similar coverages.

If these conclusions are valid, an obvious solution is to find a way to make health insurance programs more affordable to the small employer, thus inducing the employer to provide insurance and reduce the medically indigent population. It is KCCI's contention that HB 2610 is uniquely crafted to achieve that goal.

The provisions of HB 2610 would apply only to employers of 25 or fewer workers, the businesses which are having the most difficult time finding affordable health insurance. To make insurance available and affordable, several provisions have been included in HB 2610. The provisions include charging the Kansas Insurance Commissioner with assisting

qualifying businesses in their search for an insurance carrier, to exempt participants in the plan from state mandated insurance benefit coverages and a short-term tax credit for business contributions to their employee's insurance premiums.

HB 2610 has flaws. First and foremost, if employers provide no more than 'Part I' coverage, an insured employee would face a $5,000 annual deductible, and insured families would face a $7,500 annual deductible. While the formerly medically indigent worker would now be insured, the worker might still be unable to afford basic health care. Fiscal constraints limit the plan to 10,000 uninsured employees and dependents, which is only a fraction of the state's medically indigent population. It is also unfortunate, but understandable, that employers who can participate in the plan are ones who have not contributed to an employee's health insurance premium for the last two years. Because of this provision, there are employers who are currently facing the difficult decision of canceling their employee health insurance plans who will not be able to participate in the plan.

Regardless of the problems with this bill, KCCI applauds the authors of this legislation. HB 2610 recognizes the hardships small employers face finding employee health insurance, and attacks the problem by providing state government assistance and resources to encourage small employers to voluntarily join the fight to decrease medical indigency in Kansas.

Once again, thank you for hearing KCCI's views on this issue. I would be happy to answer any questions.

KANSAS HOSPITAL ASSOCIATION

Memorandum

Donald A. Wilson
President

March 12, 1990

TO: House Insurance Committee

FROM: Kansas Hospital Association

RE: House Bill 2610

The Kansas Hospital Association appreciates the opportunity to comment regarding the provisions of House Bill 2610. This bill, which was recommended by the Commission on Access to Services for the Medically Indigent and Homeless, would establish a program of incentives for small employers to offer health insurance. To do this, it would allow any two or more employers to form "a small employer health benefit plan." Employers entering into such a plan would be given certain tax credits for amounts paid into such a plan.

The focus of House Bill 2610 is on the need to reduce the number of medically indigent by increasing the pool of persons covered by some type of health insurance. Specifically, this bill attempts to deal with the large number of persons who are employed but are without health insurance for themselves or their families. There have been a number of estimates, but most data suggests that approximately 50 percent of the uninsured are working people and their dependents. Approximately one-half of the group of uninsured workers are employed by firms with fewer than 25 employees.

To reach this population, many have suggested it makes sense to offer insurance through the current employment arrangement. There are basically two ways to do this. First, all employers can be mandated to provide a certain level of health benefits to employees. This approach has been tried in some places. Indeed, it is currently being debated in Congress. In a state such as Kansas, however, this type of approach is problematic. Since small businesses comprise a large percentage of the employers in Kansas, the burden of such a system would be placed on their shoulders. The resulting economic harm could, therefore, be greater than the hoped for benefit.

Attachment 3

1263 Topeka Avenue • P.O. Box 2308 • Topeka, Kansas 66601 • (913) 233-7436 • FAX (913) 233-6955

The second approach, and the one represented by House Bill 2610, is to provide incentives for employers to voluntarily offer health insurance coverage. From our perspective, the concept behind this bill is a good one. It targets a specific population for assistance in obtaining health insurance. At the same time, it provides that assistance through a volunteer incentive plan sensitive to the needs of Kansas employers. We feel such a program can be helpful in dealing with the problem of the working uninsured.

Thank you for your consideration of our comments.

/cdc

Kansas Employer Coalition on Health, Inc.
1271 S.W. Harrison • Topeka, Kansas 66612 • (913) 233-0351

Commend representative Branson et al.

business community will always welcome a positive incentive approach

the bill attempts to address a few of the problems underlying the access problem for small businesses: risks not spread very broadly, the burden of mandates, and the absolute costs.

not optimistic that it will make much of a dent.

Pooling of risks through associations of ERs is a good idea, but the question of plan solvency is unanswered in my mind.

mandate exemption is a splendid idea.

Cost of avg. BC/BS family policy is $400/mo. -- next year $500
$25 credit won't make much of a dent.
hints of throwing money at the problem.

the issue of uninsured care is a broad social policy issue, at the heart of which are 2 questions: are we willing to arrest the cost explosion and take the fallout that such a move would entail, and secondly, are we willing to be our poor brothers' and sisters' keepers insofar as health care is concerned.

don't expect many companies to jump at this, and even if they did, I wouldn't expect many to retain coverage for long as the cost problem snowballs.

must be careful not to tell ourselves that we've really dealt with the problem by enacting this legislation.

Testimony on HB2610: Employer Health Benefit Plans

The Chairperson and Members of House Insurance Committee:

I am Walter H. Crockett, a member of the State Legislative Committee of the American Association of Retired Persons. The Kansas State Legislative Committee has adopted, as one of five priority items for this year, the support of a comprehensive program to improve access to health care for uninsured persons, both young and old.

We have followed with interest the hearings of the Commission on Access to Services for the Medically Indigent and Homeless. We were impressed by the Commission's estimate that 14% of Kansas citizens lack insurance coverage to provide them with both preventive and acute health care. As the Commission pointed out, one group of Kansas for whom such insurance is not available are the employees of small businesses, whose pool of employees is not large enough for health insurance coverage under the present system. HB2610 is aimed specifically at helping these small businesses provide health insurance for their employees. The AARP State Legislative Committee strongly supports this bill.

Thank you for the opportunity to testify concerning our support for HB2610.

Attachment 5

MEMORANDUM

Kansas Legislative Research Department

Room 545-N -- Statehouse
Topeka, Kansas 66612-1586
(913) 296-3181

March 1, 1990

MAJOR CONCEPTS IN H.B. 2610 TO ENCOURAGE SMALL EMPLOYERS TO OFFER HEALTH INSURANCE BENEFITS TO EMPLOYEES AND DEPENDENTS

The Commission on Access to Services for the Medically Indigent and Homeless introduced H.B. 2610. The bill is patterned on an Oregon law and is intended to create incentives for small employers to offer health benefits to their employees and employee dependents. The Commission bill, H.B. 2610, embodies the concepts noted below.

1. **Vehicle for Offering Coverage as Allowed by Legislation**

   a. Any two or more small employers are authorized to establish a "small employer health benefit plan" for the purpose of providing health benefits covering the employer's employees and the dependents of such employees.

   b. For the purposes of the legislation, a small employer is one who:

      i. employs no more than 25 employees who do not have health insurance or who are not eligible for Medicaid; and

      ii. has not contributed within the preceding two years to any health insurance premium on behalf of an employee who is to be covered under a small employer health benefit plan; and

      iii. makes a minimum contribution to be set by the plan toward the premium incurred on behalf of a covered employee.

   c. For the purposes of the legislation, an eligible employee is an employee who:

      i. is employed for an average of at least 17.5 hours a week;

      ii. elects to participate in a small employer health benefit plan; and

iii. is not an individual specifically excluded from the definition, such as an independent contractor.

d. The plan must provide for a board of directors to operate the plan.

e. The Commissioner of Insurance must assist, when requested, with establishing the plan and securing coverage.

2. **Incentives**

a. A plan established pursuant to the bill is not required to include any mandated benefits otherwise required by law to be provided.

b.* Until such time as 10,000 employees are certified by the Insurance Commissioner to be covered by a plan or plans organized under the act, a participating small employer who meets the requirements of the act is entitled to claim an income tax credit equal to:

i. in the first two years the lesser of

(1) 50 percent of the total amount paid during the taxable year, or

(2) the amount paid on behalf of an eligible employee for health insurance up to $25 per month per eligible employee,

ii. in the third year for an amount of 75 percent of the lesser of

(1) the total paid on behalf of employees in the taxable year, or

(2) $25 per month per employee,

iii. in the fourth year for an amount of 50 percent of the lesser of

(1) the total paid on behalf of employees, or

(2) $25 per month per employee,

iv. in the fifth year for an amount of 25 percent of the lesser of

---

* See attached example.

(1) the total paid on behalf of employees, or

(2) $25 per month per employee,

v. after the fifth year, no tax credit would be available;

vi. a small employer who does not qualify for a tax credit solely because the cap on the number of employees covered had been reached could, by being a member of a small employer benefit plan, qualify to provide the coverage offered under the plan and thus benefit from the exemption from mandated benefits and premium tax.

c. No premium tax would be levied on a small employer health benefit plan.

3. **Employer Responsibility**

a. A small employer who participates in a plan must offer part I catastrophic coverage which limits the employee's responsibility for his own health care to no more than $5,000 in a year and no more than $7,500 for family coverage.

b. May offer part II coverage which must, at a minimum reduce the employee's deductible.

c. In order to qualify for a tax credit, pay the premium of part 1 coverage up to a minimum of $40 per covered employee per month.

d. In order to qualify for a tax credit, may require the employee to pay not more than 25 percent of the premium or $15, whichever is less.

4. **Other Provisions**

a. A tax credit that exceeds the income tax liability of an employer entitled to a tax credit under the act may be carried over to succeeding years.

b. Any employer contribution to part II coverage may be included in calculating the tax credits available under the act.

ATTACHMENT

Example: For an employer who has ten employees all of whom are employed for the full 12 months of the taxable year the baseline for computation of the tax credit would be:

$25/month **X** ten employees **X** 12 months = $3,000

or, assuming the employer pays the entire premium of $55.00

$55/month **X** ten employees **X** 12 months = $6,600 **X** 50%
(as per proposal) = $3,300

Computation of the amount of payment eligible for the tax credit would be as follows:

Years 1 and 2:
100% of $25/month/employee = $3,000
or
100% of $3,300 = $3,300

Year 3:
75% of $25/month/employee = $2,250
or
75% of $3,300 = $2,475

Year 4:
50% of $25/month/employee = $1,500
or
50% of $3,300 = $1,650

Year 5:
25% of $25/month/employee = $750
or
25% of $3,300 = $825

Since the proposal specifies that the amount eligible for the tax credit will be the lesser of $25 per month per covered employee or one-half of the total amount the employer pays toward health benefits of employees covered under the plan, the employer in this example would be eligible for a tax credit on $3,000 in years one and two; $2,250 in year three; $1,500 in year four; and $750 in year five.