

Approved: 3-26-96
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on February 21, 1996 in Room 519-S of the Capitol.

All members were present except: Rep. Gwen Welshimer
Rep. Nancy Kirk
Rep. Ed Pugh
Rep. Greta Goodwin
Rep. Jack Wempe

Committee staff present: Chris Courtwright, Legislative Research Department
Tom Severn, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Ann McMorris, Committee Secretary

Conferees appearing before the committee:
Rep. Terry Presta
Tom Wilder, Kansas Insurance Department
Bill Sneed, Health Insurance Assn. of America

Others attending: See attached list

Chair opened hearing on:

HB 2702 - Income tax deduction for health care insurance premium costs

Proponents:
Rep. Terry Presta (Attachment 1)
Tom Wilder, Kansas Insurance Department (Attachment 2)
Bill Sneed, Health Insurance Association of America (Attachment 3)

Closed hearing on **HB 2702.**

Chair noted no proponents or opponents had signed to testify at hearing for **HB 2703 - Income tax credit for contributions to elementary and secondary schools.**

Chair asked for approval of minutes.

Moved by Graeber, seconded by Donovan, minutes of February 14, 1996 and February 15, 1996 be approved. Rep. Empson noted correction needed in February 15 minutes that Rebecca Rice was an opponent not a proponent. Motion carried.

Moved by Rep. Krehbiel, seconded by Rep. Hayzlett, a committee resolution be introduced to memorialize Congress asking that more focus be given to health care income tax deduction bills at the federal level to conform with the bill being proposed in the Kansas legislature. Motion carried.

The next meeting is scheduled for February 22, 1996.

Adjournment at 9:55 a.m.

Attachments - 3

and deal payers

Southwestern Bell President, Edward Whitacre Jr., personally came to Kansas and made a supplemental agreement with the Governor to guarantee approval.

The Missouri legislature refused to compromise the regulatory process and defeated the Bell legislation. Bell was forced to negotiate with the Missouri commission what the appropriate terms of continued regulation should be. The difference between the two states is startling. In Missouri, Bell agreed to:

(1) eliminate two and four party service;

(2) a rate moratorium through 1998;

(3) A commitment to construct a fiber-optic infrastructure involving both schools and hospitals. In Kansas, the legislation compels fiber-optic to schools only;

(4) \$278 million in rate reductions over the next four years;

(5) \$65 million in refunds;

(6) a commitment not to initiate any legislation that would reduce regulatory jurisdiction over Bell and its profits;

In short, Southwestern Bell's army of lobbyists and lavish campaign contributions enabled them to force through legislation that is nothing short of shameful in its effect on Kansas rate payers.



JIM ROBINSON,
Wichita, is the former chairman of the Kansas Corporation Commission.

Let's bring competition to health care insurance

by **TERRY PRESTA**

I read with interest the column by James Schwartz on the health care mandate (KBR Sept. 1, 1994). It seems to me that there is one basic first step that must be taken in the health care arena in order to get where we as a country all want to go.

First, make health care insurance premiums and out of pocket health care costs tax deductible for everyone on their personal income tax returns only.

Businesses that are spending \$5,000/year on the average employee will be able to pay this amount to the employee. The employee will then take this \$5,000 and get out and purchase his own health insurance. He will quickly find that he could purchase a policy with a \$1,000 deductible for around \$2,000 per year and would be ahead of the game by \$2,000. Because our worker now has a \$1,000 deductible he will have the incentive not only to remain healthier, but additional incentive to shop prices. We would all become health care consumers again. Our insurance would cover us for that catastrophic accident or illness, (as is really the intent of all insurance), but would make us responsible for our day to day expenditures or maintenance. After all you don't buy homeowners insurance that cuts your lawn or fixes broken doors and windows. And auto insurance does not replace tires, gas, or oil. It is not unreasonable to expect us all to take individual responsibility for our day to day health care maintenance.

After all of us again became health care consumers and started to behave like ordinary consumers by demanding value for our dollar, prices would come down (or at least stabilize over time.) We would all again ask those three important questions, "Is this a good value.", "Am I getting my money's worth", and "Could I get a better deal elsewhere".

Today the answer to all of these questions is, "I don't care; it's not my

money."

This would lead to innovation in the health care providing area. The next Sam Walton, or Ross Perot would be the man or woman that discovered how to get the 38 million uninsured people in this country insured. Today innovation is impossible because each employee is held hostage to his or her individual company's health plan.

This would also clear up the most glaring inequity in our present day tax code. If health care insurance, as the President and his men and women say, is a right, then how is it if my employer has a tax plan he can deduct the cost of my insurance from his company's expenses before taxes. However, if my company does not have a plan I must buy insurance with after tax dollars. One could not be more unfair to the man or woman working today for a small business or self employed if they tried.

So, Mr. President and Congress, let's change the tax code and let market forces reduce the costs as true market competition returns to health care. Instead of realizing that government intervention and lack of market forces are the culprit here, you have proposed more of the same. (Not unlike a medieval doctor who upon seeing that the six leeches he has placed on his patient are not working prescribes six more.)

Why not use the capitalistic tools that made this the greatest nation on earth to solve this problem? Market forces and individual incentives are the only prescriptions that will work on the crisis looming ahead.



TERRY PRESTA
is president of Presta Oil Inc. Garden City

to Kansas

Many communities throughout our state are blessed with individuals such as Frank Sabatini an Pack St. Clair who have contributed to the economic stability of our state.

Keep up the good work of bringing such stories out of obscurity.

Keep up the good work

To the editor:
I compliment you and your staff the new pub *The Kansas Business Report*. I have read the early issues and

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2-21-96
Attachment 1-1

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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
MEMBER: BUSINESS, COMMERCE AND LABOR
ENERGY AND NATURAL RESOURCES
TRANSPORTATION

Thank you for the opportunity to testify in favor of HB 2702. This bill is the first step in developing a private sector solution to our current health care dilemma.

Currently, we have Medicaid to provide health care for the poor and we have Medicare to provide health care for the elderly. This bill addresses those in the middle who are currently uninsured.

One of the legitimate functions of government is to encourage the behavior it wants by giving the proper incentive to the citizenry. In the same way we encourage home ownership by allowing a mortgage interest deduction, this bill would encourage people to provide for their own health care insurance by not taxing them if they did.

Currently, we penalize small business people and their employees who don't have a company health plan. And we penalize those individuals who retire early (or are laid off) by making them pay tax on any income they have and then provide for their families insurance. We also force million of people to pick their employers plan whether or not it is right for their particular situation. Could anything be more unfair or absurd? What logic is there in requiring that a working person must be enrolled in a company's health plan in order to pay for his/her health care insurance before tax? Without this requirement, some innovative person may become the next Sam Walton by finding a way to get all these uninsured customers insured.

When this bill is enacted the people will have the opportunity to deduct on their State tax return that the amount of health care premium they pay personally from their State gross income amount and then figure their tax liability.

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I believe that if Kansas can enact this bill, and other states do likewise, that eventually the Federal government will see the logic and do the same on Federal tax return. This will give people the choice of shopping for the policy that fits their needs, and not merely accepting what their employer picks for them.

If both the State and Federal government allowed this deduction personally, then the State could become one large pool. This would then take care of the problems of portability and pre-existing conditions. The insurance companies with the largest market share in the State could best spread their exposure. Competition and innovation would return to this industry as all insurance companies tried for greater market share.

This first step, coupled later with the overhaul of Medicaid and Medicare, and bringing true competition to the health care providing arena will lead to a better system for all citizens.

Terry Presta
Representative, 123rd District



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

MEMORANDUM

To: House Taxation Committee

From: Tom Wilder, Director of
Government and Public Affairs

Re: H.B. 2702 (Tax Exemption/Health Care Costs)

Date: February 21, 1996

I am appearing today on behalf of the Kansas Insurance Department in support of House Bill 2702. The legislation provides a deduction from the Kansas income tax for health insurance premiums. Employers are provided tax deductions for health insurance premiums paid by the company. It is a matter of fairness to extend this deduction to individual taxpayers. This legislation is similar to a number of bills which give a federal income tax deduction for health insurance premiums which are under consideration by the U.S. Congress.

The Kansas Department of Insurance urges your support for H.B. 2702.

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2-21-96
Attachment 2

MEMORANDUM

TO: The Honorable Phill Kline, Chairman
House Taxation Committee

FROM: William W. Sneed
Health Insurance Association of America

DATE: February 21, 1996

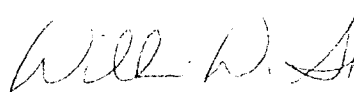
RE: HB 2702

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I represent the Health Insurance Association of America ("HIAA"). HIAA is a group of approximately 300 companies which together sell 80% of the private health insurance in the United States today. We appreciate this opportunity to present testimony in support of HB 2702.

HB 2702 amends existing tax law to allow an individual to deduct from Kansas adjusted gross income an amount for health insurance premium costs up to \$6,000. The \$6,000 limit is to be increased each year by a percentage equal to the consumer price index. HIAA supports this incentive for Kansans who protect themselves and their families with the purchase of health insurance. Easing the cost burden of health insurance premiums works to promote the purchase of private health insurance, thus alleviating at least a portion of the strain on public funds caused by those who otherwise could not quite afford private insurance.

Again, HIAA rises in support of HB 2702, and we urge your favorable action on the bill. Please feel free to contact me if you have any questions.

Respectfully submitted,



William W. Sneed

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Attachment 3