

Approved: Feb. 10, 1998
Date

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Don Steffes at 9:00 a.m. on February 2, 1998 in Room 529-S of the Capitol.

All members were present except: Senator Donald Biggs, Excused
Senator Paul Feleciano, Excused

Committee staff present: Dr. William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Tom Wilder, Kansas Insurance Department
John Bottenberg, Delta Dental Association
Michelle Peterson, Golden Rule Insurance

Others attending: See attached list

Senator Becker moved that the minutes of January 28 and 29, 1998, be approved as presented. Motion was seconded by Senator Clark. Motion carried.

Michelle Peterson, representing Golden Rule Insurance, requested bill introduction which would allow bonafide associations to offer health insurance without the open enrollment and guaranteed issue requirements which are placed on employment related groups (Attachment 1).

Senator Becker moved for the introduction of this proposal into legislation. Senator Barone seconded the motion. Motion carried.

Hearing on HB 2639--Adjustment of premium taxes for nonprofit dental service corporations

Tom Wilder, Kansas Insurance Department, explained this as being corrective measures to the premium tax legislation which was passed last year. (Attachment 2). Through an oversight Delta Dental was required to pay a two percent tax rate rather than a reduction to one percent thus increasing their taxes by \$70,000. They are also requesting that the bill be made effective with its publication in the Kansas Register so that Delta Dental's first tax estimate for 1997 which is due March 1 will reflect the reduced taxation. There will be no impact on the state general fund.

John Bottenberg, lobbyist for Delta Dental, verified Mr. Wilder's explanation in that they too had inadvertently overlooked the taxing status of the dental service corporation.

Senator Barone moved to report the bill favorably and have it placed on the Consent Calendar. The motion was seconded by Senator Clark. Motion carried.

The Committee entered open discussion about the "wild card" issue and the options open for remedying the current situation dealing with bank privilege taxes. The 1995 letter from then State Bank Commissioner Frank Dunnick regarding the wild card provision which allowed state banks to form wholly owned subsidiaries to hold all or a portion of the banks' investments portfolios was presented to the Committee and was found to be in order and statutorily correct (Attachment 3.). This particular "wild card" gave the bank commissioner greater authority without oversight. Options to avoid such future authorizations included:

1. Repeal the wild card provision for the bank commissioners from the statutes. No other agency head has the authority to issue such "wild card" orders. Some agencies can issue bulletins, orders, and opinions without actually changing the law as the "wild card" option does.

CONTINUATION SHEET

MINUTES OF THE Senate Committee on Financial Institutions & Insurance, Room 529-S Statehouse, on February 2, 1997.

2. Require fiscal notes on any changes which would impact taxes. Fiscal notes started about 1965. They are now presented by the Budget Department for each piece of legislation introduced. They are not updated as the bill moves through the Committee process.
3. Require economic impact statement when state agencies are involved.
4. Disallow any agency to cut taxes without a full study.

Fred Carman, Revisor of Statutes, reviewed conceptual legislation which would make any "wild card" proposals subject to review and decision making by the Legislative Coordinating Council when the Legislature was not in session. The subject would then be presented to the Legislature upon their convening. Economic impact statements would also be required.

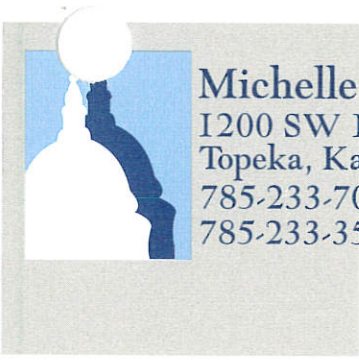
Senator Brownlee offered a conceptual motion which would repeal the "wild card" provision authority as a vehicle to open discussion for future legislation. The motion was seconded by Senator Becker. Motion carried.

The Committee recognized the extreme of this proposal and voiced commitment to the development of legislation which would review the positives as well as the negatives of the "wild card" provisions, an alerting system for proposals which would change the tax status of different industries, the makeup of the banking board and addressing the possibility of conflict of interest, and selection of the bank commissioner.

Senator Brownlee moved to conceptually introduce a bill which would mandate insurance coverage for infertility. Motion was seconded by Senator Corbin. Motion carried.

The introduction of this bill may allow it to be placed in a summer interim study on mandated insurance coverage with such bills as breast reconstruction, mental health parity, osteoporosis, etc.

The meeting adjourned at 9:55 a.m. The next meeting is scheduled for February 3, 1998.



Michelle L. Peterson
1200 SW 10th Avenue
Topeka, Kansas 66604
785-233-7050
785-233-3518 fax

To: Senate Committee on Financial Institutions and Insurance

From: Cindy Harrington/Michelle Peterson
Golden Rule Insurance Company

Date: February 2, 1998

Re: Bill Introduction Request

We are requesting introduction of a proposed bill which would amend K.S.A. 40-2209 (F)(5). It would allow bonafide associations to offer health insurance without the open enrollment and guaranteed issue requirements which we place on employment related groups.

*Senate FID
Attachment 1
2/2/98*

Proposed Amendment to KSA 40-2209(F)(5)

(a) The open enrollment provisions of K.S.A 40-2209(A)(1), 40-2209(A)(4); 40-2209(A)(6), and 40-2209(E) shall not apply to transactions in this state involving group sickness and accident insurance policies which were lawfully issued and delivered to a valid association located in the state of issue, if the policy is not designed, administered, or marketed as a plan for employers to provide coverage to two or more employees and does not provide coverage for employees of members of the association.

(b) For purposes of this subsection, "valid association" means an association which:

- (I) has been in active existence for at least five years;
- (II) has been organized and maintained in good faith for purposes other than that of obtaining insurance;
- (III) has a minimum of five hundred members;
- (IV) does not condition membership on the condition of health status;
- (V) has a constitution, charter, or bylaws which provide for regular meetings, at least annually, to further the purposes of the members;
- (VI) collects dues or solicits contributions from members; and
- (VII) provides members with voting privileges and representation on the governing board and committees.



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

MEMORANDUM

To: Senate Financial Institutions and
Insurance Committee

From: Tom Wilder

Re: H.B. 2639 (Insurance Premium Taxes)

Date: February 2, 1998

I am appearing to ask for your support for House Bill 2639 which will correct an oversight with the premium tax legislation that passed last year. As you recall, in 1997 this committee corrected a constitutional problem with our tax laws which discriminated between domestic (Kansas domiciled) and foreign insurance companies. The new law provides that effective with tax year 1988, all companies will be assessed a uniform 2% tax on premiums collected in Kansas. Insurers were given a tax credit for Kansas based employees to encourage economic development.

Unfortunately, when the bill was passed by the Legislature, there was an oversight which will result in one Kansas company paying higher taxes for this year. Delta Dental is classified in our law as a service corporation which provides dental benefits. The company is listed in a separate part of the tax statute. The incorrect wording of the provision will change their tax rate to 2% effective with tax year 1997, rather than 1998 as for all other domestic and foreign insurance carriers. As a result, Delta Dental will pay approximately \$70,000 in taxes in 1997 above what they should be assessed.

The Insurance Department is asking the Legislature to correct this oversight so that Delta Dental is not placed at a disadvantage. We are also requesting that the bill be made effective with its publication in the Kansas Register so that Delta Dental's first tax bill for 1997, which is due March 1st, will reflect the correct amount of their tax.

420 SW 9th Street
Topeka, Kansas 66612-1678

785 296-3071
Fax 785 296-2283
Printed on Recycled Paper

Senate FD & I
Attachment 2
2-2-98
Consumer Assistance Hotline
1 800 432-2484 (Toll Free)

BILL GRAVES
GOVERNOR



Frank D. Dunnick
Bank Commissioner

Judi M. Stork
Deputy Commissioner

Kevin C. Glendening
Assistant Deputy Commissioner

William D. Grant, Jr.
General Counsel

Ruth E. Glover
Administrative Officer

OFFICE OF THE
STATE BANK COMMISSIONER

October 3, 1995

The Hon. Paul "Bud" Burke
President of the Kansas Senate
Rm. 359-E, Kansas Statehouse
Topeka, Kansas 66612

Re: K.S.A. 9-1715, as amended; Special Order 1995-6

Dear Senator Burke:

This correspondence is directed to your attention pursuant to K.S.A. 9-1715 (c). Enclosed is a copy of Special Order 1995-6 issued pursuant to the "wild-card" authority found at K.S.A. 9-1715(a). The wild-card statute provides this office with the ability to protect the balance of competitive equality between state and national banks, which is crucial to the viability of the dual banking system. To this end, Special Order 1995-6 was formulated to eliminate competitive inequities created by discrepancies between the laws governing state and national banks.

Special Order 1995-6 was passed at the request of a number of Kansas state banks seeking the ability to form a wholly owned subsidiary to hold all or a portion of the banks' investment portfolios. According to the information received by our department, placing certain government securities under the auspices of the investment subsidiary results in a substantial reduction in the banks' tax liability. Federal law currently allows national banks in Kansas to enjoy the tax benefits presented by the establishment and operation of this type subsidiary. Until issuance of this order, Kansas law contained no similar allowance. The potential savings constitute a competitive disadvantage for state banks, which the special order is designed to eliminate.

Should you have questions or comments on this or any other matter, please do not hesitate to contact me or my General Counsel, William Grant.

Respectfully,

Frank D. Dunnick
State Bank Commissioner

FDD:WDGjr:mdt

Enclosure

Senate FDD
Attachment 3

2/2/98