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LATE

SENATE COMMITTEE ON HUMAN SERVCIES & PUBLIC HOUSING
TESTIMONY REGARDING HB 2778 HD 2
RELATING TO TAX CREDITS

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: MARCH 13, 2008
TIME: 1:15PM
ROOM: 016

This bill creates an income tax credit to encourage Hawaii employers to purchase qualified long-term care insurance for their employees. This tax credit is phased-in over two years and will be equal to the greater of $500 or 50% of qualified long-term care premiums paid per employee.

The Department of Taxation (Department) **supports** this measure.

I. THE NEED FOR LONG-TERM CARE INSURANCE CONTRACTS.

The future of long-term care for Hawaii's senior and adult disabled population is one of the most critical health issues facing Hawaii in the twenty-first century. Persons sixty years of age and older presently account for almost one-fifth of the adult population in the State. By 2020, they will constitute more than one-fourth of Hawaii's adult population.

The rapid growth of the elderly and disabled populations will result in extraordinary demands on the delivery of long-term care services. While the majority of persons receiving long-term care are older adults, entire families are affected by the psychological, financial, and social costs of long-term care provided to those who are limited in the activities of daily living. As of 2003, the statewide average annual cost of a room in a skilled nursing facility was $105,028 for a private room and $95,597 for a semi-private room.

When employees provide long-term care to family members in need, businesses incur costs for lost productivity due to employee absenteeism, for replacing the absent employee, and in supervising temporary replacement workers. According to a 1997 study conducted by the National Alliance for Caregivers and the Metlife Mature Market Institute, the total cost of lost productivity to businesses nationally from these factors exceeded $29 billion annually.

II. EMPLOYER TAX CREDIT

This employer long-term care tax credit accomplishes the following:

- Encourages employers to purchase qualified long-term care insurance contracts for their employees;

- Ensures that such qualified long-term care insurance contracts provide a requisite level of home and community-based care in addition to coverage for long-term care in intermediate care facilities and skilled nursing facilities;

- Extends long-term care insurance coverage to those individuals who generally could not otherwise obtain coverage and/or who could not obtain reasonably priced long-term care insurance coverage;
    - On most employer-sponsored plans, the insurers use less rigorous standards for determining a full-time employee's eligibility for coverage, which is a practice commonly referred to as "simplified short form underwriting."
    - Thus, a substantial number of Hawaii residents who could ordinarily not obtain coverage on an individual plan (or who could not obtain reasonably priced long-term care insurance coverage) will be able to obtain coverage on an employer-sponsored policy because of the less restrictive underwriting.
    - The employer's group plan allows a long-term care insurer to spread the underwriting risk among a group of covered individuals who work full-time.

- Encourages greater participation in employer-subsidized long-term care insurance plans by employees.
    - Employer-subsidized long-term care insurance plans generally see greater participation rates by employees.
    - Employee participation in employer-sponsored long-term care insurance plans is significantly greater when the employer pays for a small percentage, or "base coverage," of the employee's premium.

II. TECHNICAL ISSUES

The Department notes that the current drafting of the bill appears to apply at the entity level for partnerships and other flow-through business entities. The Department suggests that any reference to the credit claim for partnerships or limited liability companies clearly distinguish that the credit is determined at the entity level. The Department further points out that partnerships and limited liability companies treated as partnerships for tax purposes typically never receive tax treatment—it is the owners that receive all incidences of taxation. Under the current drafting of the bill, a statement providing that for partnerships or other flow-through entities the credit is determined at the entity level, this will allow the credit to be distributed to partners in proportion to their partnership interests.

III. REVENUE IMPACT

Assuming this measure takes effect immediately, annual revenue loss amounts to $900,000.

LATE

Laura Manis Testifier

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COMMITTEE ON HUMAN SERVICES AND PUBLIC HOUSING

Senator Suzanne Chun Oakland, Chair
Senator Les Ihara, Jr., Vice Chair

COMMITTEE ON PUBLIC SAFETY
Senator Will Espero, Chair
Senator Clarence K. Nishihara, Vice Chair

Thursday, March 13, 2008 1:15 p.m. Conference Room 016

HB 2778, HD2 RELATING TO TAX CREDITS. Grants tax credit to small businesses at the lesser of 50% of premiums or $500 per employee for purchase of long-term care insurance for its employees. Defines small business as businesses employing less than 100 full-time or part-time workers.

COMMENTS
Kokua Council realizes that this is a new perspective to providing an incentive for buying Long Term Care Insurance. Providing a tax credit to employers of small businesses who purchase the insurance for their employees is worth a trial.

For this reason we suggest that a sunset date be included in the bill to give time to evaluate whether or not it did indeed increase the purchase of Long Term Care Insurance. Also of concern, is who pays for the insurance if the employee changes jobs.

Laura G. Manis, Legislative Chair, Kokua Council
tel. 597-8838

LATE

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS
IN SUPPORT OF H. B. 2778, HD2, RELATING TO TAX CREDITS

March 13, 2008

Senator Suzanne Chun-Oakland, Chair
Committee on Human Services and Public Housing
State Senate
Hawaii State Capital, Conference Room 016
415 S. Beretania Street
Honolulu, HI 96813

Dear Chair Chun-Oakland and Committee Members:

Thank you for the opportunity to testify in support of House Bill 2778, HD 2, relating to taxation.

Our firm represents the American Council of Life Insurers ("ACLI"), a national trade association whose three hundred fifty-three (353) member companies account for 93% of the life insurance premiums and 94% of the annuity considerations in the United States among legal reserve life insurance companies. ACLI member company assets account for 93% of legal reserve company total assets. Two hundred sixty-one (261) ACLI member companies currently do business in the State of Hawaii.

ACLI supports House Bill 2778, HD 2, which provides an income tax credit to a qualified resident individual or a corporate "small business" employer (defined as having less than 100 employees) in an amount equal to the lesser of $500 or 50% of the cost of the long-term care insurance premium for each employee.

ACLI generally believes that as a matter of public policy the State of Hawaii should encourage individuals to provide for their own financial well-being. If a family is unable to support its long-term care needs, the State will need to spend its scare resources for that purpose.

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testimony

LATE

From: kuulei [kuuleikiliona@hawaii.rr.com]

Sent: Thursday, March 13, 2008 12:58 PM

To: testimony

Subject: HB 3352 HD2

TO: The Senate Committee on Human Services and Public Housing and The Senate Committee on Public Safety,
Chairs: Senator Chun Oakland and Senator Espero

FROM: Ku'ulei A. Kiliona, Chair
State Council on Mental Health
kuuleikiliona@hawaii.rr.com

RE: HB 3352 HD2
DATE: March 13, 2008
TIME: 1:15 p.m.
PLACE: Conf. room 016

Dear Chairs and Committee Members,

This testimony is in strong favor of HB 3352 HD2, requesting the Auditor to perform a financial and management audit of the Hawaii Disability Rights Center (the Protection and Advocacy agency in our State). The State Council is in strong agreement that one of our duties is to advocate on behalf of the population we serve, the severe mentally ill. This population depends on proper servicing by the Hawaii Disability Rights Center.

In the body of this measure it states: "that there is an ongoing dispute as to whether the law that provides the Center access to records overrides the privacy rights of persons receiving services and their families, with or without the appropriate waivers of these privacy rights.." We believe that the right to privacy is a basic right to be decided by the individual; not given over so lightly to an agency without their permission.

The population we serve is often times vulnerable, therefore, we strongly ask that any agency services connected to the population we advocate for be monitored on a timely basis.

We request that the Act take effect as soon as possible and not wait for the year 2050 as currently presented in the bill. We feel it is of strong importance that one's civil liberties not continue to be kept unclear.

Mahalo for the opportunity to submit written testimony.