

SB 2856



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TO THE SENATE COMMITTEES ON HEALTH AND
COMMERCE, CONSUMER PROTECTION AND AFFORDABLE HOUSING

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Friday, February 1, 2008
1:15 p.m.

**TESTIMONY ON SENATE BILL NO. 2856 – RELATING TO TAXATION OF
PREMIUMS**

TO THE HONORABLE DAVID Y. IGE AND RUSSELL S. KOKUBUN, CHAIRS, AND
MEMBERS OF THE COMMITTEES:

My name is J. P. Schmidt, State Insurance Commissioner, testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). The Department strongly supports this bill, which eliminates the premium tax of 4 percent on for profit medical insurers. This bill would level the playing field between for profit medical insurers and non-profit medical insurers who currently do not pay premium tax. This will likely encourage more competition to enter the health insurance market. Increased competition may help consumers by creating downward pressure on premium rates and creating an incentive for a greater variety of product offerings. Increased competition may also help physicians with their reimbursement issues by increasing the number of payers in the market.

This is not a theoretical notion. I have had direct talks with for profit insurers on the mainland who say that the 4 percent premium tax differential makes it difficult for them to enter the Hawaii market and compete successfully.

DCCA Testimony of J.P. Schmidt
S. B. No. 2856
February 1, 2008
Page 2

It should also be noted that it is erroneous to assume that non-profit medical insurers receive a premium tax exemption because of charitable work that they do. In fact, there is no enforceable requirement that non-profit health insurers do charitable work other than providing health insurance to Hawaii's people.

We thank this Committee for the opportunity to present testimony on this matter and ask for your favorable consideration.

Testimony of
Frank P. Richardson
Executive Director of Government Relations

Before:
Senate Committee on Commerce, Consumer Protection, and Affordable Housing
The Honorable Russell S. Kokubun, Chair
The Honorable David Y. Ige, Vice Chair

and

Senate Committee on Health
The Honorable David Y. Ige, Chair
The Honorable Carol Fukunaga, Vice Chair

February 1, 2008
1:15 pm
Conference Room 016

**SB 2856 RELATING TO TAXATION OF PREMIUMS
(Premium Tax Exemption all Health Plans)**

Chairs, Vice Chairs, and committee members, thank you for this opportunity to provide testimony on SB 2856 which eliminates the insurance premium tax on health insurers who provide coverage to employees under HRS Chapter 393 (i.e., Hawaii Prepaid Health Care Act).

Kaiser Permanente Hawaii opposes this bill because it fails to articulate a rationale to extend the premium tax exemption to for-profit insurers.

Generally, tax exempt status is granted to entities that are (1) not-for-profit and (2) meet the eligibility requirements under applicable subsections of Section 501(c) of the Internal Revenue Code. When such an entity meets the requirements, the Internal Revenue Service issues a tax exemption letter.

For example, Kaiser Foundation Health Plan, Inc., a California non-profit corporation, received a tax exemption letter under Section 501(c)(3) of the Internal Revenue Code. Since the exemption was granted, we have had to demonstrate our continuing entitlement to the tax-exemption.

Accordingly, Kaiser believes it would be inappropriate for the legislature to grant a tax exemption without an articulation of public purpose. It is for these reasons we urge you to hold SB 2856.

Thank you for your consideration.

LATE TESTIMONY

SUMMERLIN
HEALTH INSURANCE COMPANY

February 1, 2008

To: Senator David Y. Ige, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Health

Senator Russell S. Kokubun, Chair
Senator David Y. Ige, Vice Chair
Committee on Commerce, Consumer Protection, Affordable Housing

From: Summerlin Life & Health Insurance Company

RE: SB 2856, Relating to Taxation Of Premiums

Dear Chair Ige, Chair Kokubun and Members of the Committees:

Thank you for the opportunity to testify in **strong support of SB 2856** which would eliminate the 4.265 percent premium tax for health insurance companies.

The cost of health insurance continues to rise at a rapid rate and remains a significant concern to all of Hawaii's residents – both individuals and business owners alike. While the high cost of health care is a major cost of doing business here in Hawaii, it is ultimately passed on to the consumer. Thus, any effort to minimize those costs would benefit all and should be supported.

One of the primary keys to controlling the cost of healthcare is to increase competition in the marketplace for health insurance, which provides consumers and businesses more alternatives and ultimately lowers health care premiums. We all know that competition within an industry is healthy for the marketplace and especially benefits the consumers. However, it has become increasingly difficult to obtain affordable health insurance from an extremely limited pool of health insurers here in Hawaii.

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This measure directly addresses this issue. SB 2856 will eliminate the existing premium tax (we understand Summerlin is the only one paying) and current anti-compete environment in Hawaii's health care industry by leveling the playing field, attracting more carriers to Hawaii and increasing the availability of affordable health insurance. In effect, consumers and businesses will have more alternatives, which will ultimately result in competition and lower health care premiums. SB 2856 will most certainly benefit Hawaii's consumers and businesses.

In the past few sessions, this measure has received strong support from the business community.

However, there has also been a claim that this measure would not lower the cost of healthcare nor increase competition. Such a claim is unsubstantiated and contradicts past events involving the State's Employer-Union Health Benefits Trust Fund (EUTF).

In September 2004, after an interesting series of events, the EUTF exercised a two-year option of a four-year contract with Hawaii Medical Service Association (HMSA) that the Trust said would result in "substantial savings."

Several months earlier, the EUTF voted to compete the health insurance contract via request for proposals (RFP). It was widely known that other health insurers, Health Management Associates (HMA, Inc.) and Summerlin Life & Health Insurance Company in particular, had expressed an interest and were prepared to bid on the contract.

However, instead of issuing a RFP, the EUTF ultimately decided to stay with HMSA after HMSA sweetened the option years of the contract by substantially decreasing its rates. It was reported at that time that the EUTF would realize a cost savings of \$74 million over the next two years. According to the Honolulu Advertiser dated Thursday, September 16, 2004, "HMSA reduced its rate increases, resulting in a \$49 million discount, and the insurer also pledged to return \$25 million in surplus premiums to the trust fund. "

The following December (2005) HMSA also awarded the EUTF with a premium rate holiday. It was reported by the Advertiser on June 24, 2005, that the cost savings amounted to over \$25 million. I ask you, do you think the EUTF would have had this opportunity to realize this enormous savings

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of \$99 million if a competitor such as HMA, Inc. or Summerlin did not show an interest in bidding on the contract?

Let me also share with you other examples during the past years of what competition can do in the private sector. Listed below are initial renewal offers made by Insurance Company A and the adjusted renewal made by the same company after Summerlin "expressed" an interest in competing.

	<u>INITIAL RENEWAL</u>	<u>ADJUSTED RENEWAL</u>
Utility Company	+10 %	-14 %
Super Market	+15 %	- 5 %
Resort Hotel	+ 6 %	-16 %
Flight Service	+15 %	+ 6 %
Drug Store	+24 %	+14 %
Major Bank	+ 8 %	- 5 %

The high cost of healthcare is a significant cost of doing business here in Hawaii that is ultimately passed on to the consumer. Any effort to minimize those costs through competition on a "level playing field", as this measure will effect, will only benefit the consumer and should be supported.

I urge you to pass SB 2856. Thank you very much for the opportunity to testify on this measure.

Mahalo,

'Eleu Kane
Government Relations
Summerlin Life & Health Ins. Co.



January 31, 2008

The Honorable Russell Kokubun
Chair, Senate Committee on Commerce, Consumer Protection and Affordable Housing

The Honorable David Ige
Chair, Senate Committee on Health

In **Opposition** to SB 2856 (written testimony only)

Thank you for the opportunity to testify in opposition to SB 2856.

AlohaCare is a non-profit, Hawaii based health plan providing health care coverage to low income families and Medicare beneficiaries. Founded in 1994 by Hawaii's community health centers, AlohaCare serves only Medicaid and Medicare beneficiaries on all islands.

SB 2856, Relating to Taxation of Premiums, eliminates the premium tax of 4.265 percent on health insurers. We believe this bill to be detrimental to the community and unnecessary. The health insurance marketplace is very healthy and we do not believe that for-profit health insurers need to be exempt from paying the premium tax.

This bill sets a very dangerous precedent. The marketplace should determine success or failure of a corporation. If an outside group wants to operate in Hawaii as a health insurer it can do so as a non-profit corporation or pay the premium tax.

Exempting for-profit companies from the premium tax essentially subsidizes the for-profit company and gives a 4.265 percent bonus to the stockholders who often pass this money and take jobs out of state.

We urge you to hold this bill.

Thank you for this opportunity to testify.

Sincerely,
John McComas
Chief Executive Officer