

STAND. COM. REP. NO.

761

Honolulu, Hawaii

March 6, 2009

RE: H.B. No. 1749

H.D. 1

Honorable Calvin K.Y. Say  
Speaker, House of Representatives  
Twenty-Fifth State Legislature  
Regular Session of 2009  
State of Hawaii

Sir:

Your Committee on Finance, to which was referred H.B. No. 1749 entitled:

"A BILL FOR AN ACT RELATING TO THE INSURANCE PREMIUM TAX,"

begs leave to report as follows:

The purpose of this bill is to impose, from July 1, 2009, to June 30, 2015, the insurance premium tax on mutual benefit societies, fraternal benefit societies, and health maintenance organizations. This bill also establishes a medical workforce promotion, health workforce education, or indigent health care program tax credit that may be claimed against the tax.

The Chamber of Commerce of Hawaii, Kaiser Permanente, Thrivent Financial for Lutherans, Woodmen of the World, Foresters, Knights of Columbus, and a concerned individual testified in opposition to this bill. The Tax Foundation of Hawaii, National Fraternal Congress of America, Hawaii Medical Service Association, and several concerned individuals provided comments.

This bill has been introduced as one among many alternatives intended to generate revenues to address the state budget deficit. Because of the downturn of the worldwide economy, the State of Hawaii will not receive the amount of general fund revenues that was previously projected by the Council on Revenues. For this current fiscal year and the upcoming fiscal biennium, the shortfall is anticipated to exceed \$1,000,000,000.

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Your Committee realizes that any new tax imposed on formerly exempt entities may have negative effects on the community. Nevertheless, your Committee finds that the State's budgetary situation is so dire that the revenue gain from this bill may be needed. Consequently, your Committee is keeping this bill alive as an option for the generation of additional general fund revenues.

Your Committee has amended this bill as follows:

- (1) The imposition of the insurance premium tax on fraternal benefit societies is deleted. Your Committee finds that the testimony supporting deletion was persuasive.
- (2) The insurance premium tax is imposed on a gradually escalating rate over a four-year period rather than at the full 4.265 per cent rate on July 1, 2009. Your Committee finds that imposing the tax at the full rate immediately would be a too sudden burden on mutual benefit societies and health maintenance organizations.
- (3) A new section 8 is added requiring the insurance commissioner to consider whether the imposition of the insurance premium tax on mutual benefit societies and health maintenance organizations may cause their current managed care plan rates to become inadequate. If the insurance commissioner makes such a determination, the insurance commissioner is required to determine whether the rates should be adjusted. Your Committee recognizes that the insurance premium tax will be an added expense for formerly exempt mutual benefit societies and health maintenance organizations. Your Committee finds that fairness requires the insurance commissioner to consider whether the added expense should be reflected in a rate adjustment.
- (4) The effective date is changed to July 1, 2020, and the sunset date is changed to June 30, 2026.

Your Committee notes that this bill establishes a tax credit for cash expenditures by mutual benefit societies and health maintenance organizations for certain publicly beneficial programs. At present, the Hawaii Medical Service Association and Kaiser Permanente donate much in money and services to community programs. Your Committee intends that the credit encourage both



organizations to continue their generous contributions to the community.

Finally, your Committee notes the testimony of the Hawaii Medical Service Association requesting the inclusion within the scope of the bill of "all entities administering health plans in the state". Your Committee understands that the testimony refers to organizations that self-insure their health benefits. Although your Committee has not included the provision in this bill, your Committee finds that the matter is worthy of further consideration in the future.

As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1749, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1749, H.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on  
behalf of the members of the  
Committee on Finance,

  
MARCUS R. OSHIRO, Chair



