HB2852

HMSA
Blue Cross
Blue Shield
of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

March 15, 2010

The Honorable David Ige, Chair
The Honorable Rosalyn Baker, Chair
Senate Committees on Health and Commerce and Consumer Protection

Re: HB 2852 HD1 – Relating to the Insurance Premium Tax

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

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on HB 2852 HD1 which would impose a graduated tax on non-profit health plans in the state. We have concerns with this measure.

As you know, the majority of health plans in the state operate as non-profit entities resulting in a savings to employers who are mandated to provide coverage to their employees via the Prepaid Health Care Act (PHCA). HB 2852 HD1 would require health plans pay a premium tax beginning this year at a rate of 2.265 percent graduating to 4.265 percent for the years 2013-2015. This tax would essentially be passed on to Hawaii's businesses which would increase the cost of health care coverage.

<u>Tax Impact</u>

On first blush, taxing non-profit health plans could seem to be a quick and easy method to generate additional income for the state. We keenly understand the budgetary shortfall the legislature is attempting to address. However, a tax of this sort would ultimately be borne by employers. The potential cost to employers who receive their coverage through HMSA alone, over the period of time outlined in the measure, would be as follows:

- For 2010-2011 the 2.265% tax would increase health plan premiums by an additional $53.9 million
- For 2012 the 3.265% tax would increase health plan premiums by an additional $77.7 million
- For 2013 - 2015 the 4.265% tax would increase health plan premiums by an additional $101.6 million

<u>Current Issues</u>

While we appreciate the legislature's attempt to close budgetary gaps, we would like to remind the Committees that many of the non-profit plans in the state are already facing a funding shortage relating to the provision of safety net services to QUEST members across the state. As you are aware, the Department of Human Services (DHS) stated that due to budgetary shortfalls, they will delay payments to contracted QUEST plans, beginning in April and extending through June. While we understand the budgetary restrictions the State is facing, DHS' decision significantly impacts a health plan's ability to pay for services. Given the impact this will ultimately have on the entire health care system, we would encourage the Committees to resist imposing additional costs on the system overall.

Although it may seem that the issues facing QUEST would solely impact publicly funded health plans, due to the interconnectedness of health care in the state, strains in publicly funded programs ultimately have an effect on the entire system. Providers who see QUEST members also see members whose coverage is funded through their employer and the shortfalls in reimbursements by public payers are already borne by private employers.

Hawaii's Private Health Care Market

Hawaii's health care market almost entirely consists of non-profit health care insurers and Hawaii's premium rates, on average, are typically lower than those seen across the nation. An argument could be made that because of this, the PHCA has been able to function and keep Hawaii's uninsured rate at one of the lowest levels in the country. The national debate on health care has repeatedly backed away from imposing a mandate on employers where premium increases in other states are often in the high double digits. Hawaii has had an employer mandate in place for a long period of time and the strong presence of non-profit plans in the states assists in its facilitation. Additionally, non-profit plans in the state operate with a mission that includes a strong community-mindset, giving back in many different ways.

Again we are not shielded from the budgetary crisis the State is experiencing at this time. It really is prudent to remember that the entire health care system is connected and when one area is strained another area feels that pull as well. At this time, the system is being strained from many different vantage points and the tax being proposed in HB 2852 HD1 only adds to this strain. Given the issues and circumstances at this time, we would respectfully request the Committees see fit to defer this measure.

Thank you for the opportunity to provide comments today.

Sincerely,

Jennifer Diesman
Vice President
Government Relations

KAISER PERMANENTE Government Relations

Testimony of

Frank P. Richardson
Vice President and Regional Counsel

Before:
Senate Committee on Health
The Honorable David Y. Ige, Chair
The Honorable Josh Green, M.D., Vice Chair
and
Senate Committee on Commerce and Consumer Protection
The Honorable Rosalyn H. Baker, Chair
The Honorable David Y. Ige, Vice Chair

March 15, 2010
3:00 P.M.
Conference Room 016

HB2852, HD1 RELATING TO THE INSURANCE PREMIUM TAX

Chairs, Vice Chairs, and committee members, thank you for this opportunity to provide testimony on HB 2852, HD1 which would impose a premium tax on mutual benefit societies and health maintenance organizations.

Kaiser Permanente Hawaii opposes this bill.

The cost of delivering health care in Hawaii and across the nation continues to mount. The imposition of a tax on gross premiums will only add to that cost, as the tax would be passed on to health plan purchasers and consumers in the form of higher premiums. This will drive up the overall cost of healthcare to those purchasers and to the state. Employers, large and small, all of whom are mandated to provided health coverage to their employees in Hawaii, as well as individual purchasers, will wind up shouldering this additional cost. Even government employers and purchasers of healthcare benefits will bear the additional cost of this premium tax on their healthcare benefits.

In the first ½ year alone (July-Dec. 2010), the tax burden on only Kaiser premiums will be greater than $10Million. By 2015, the tax burden would bloat to more than $44Million, most of which would be borne by small business employers and individuals, as well as by EUTF, the State

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Group. EUTF, alone, would be hit by $1Million in the first ½ year, about $2.5Million in the next year, and over $7Million in premium hikes by 2015.

A tax on gross premiums would also compromise Kaiser Foundation Health Plan and Hospital's ability, as non-profit public benefit corporations, to provide the ongoing charity care and other community support that benefits the Hawaii community to the extent and level of its current giving. Kaiser exists to provide affordable, high-quality health care services to improve the health of our members and the communities we serve. This is our mission. We fulfill our commitment to improve the health of the community by implementing or supporting community efforts to improve the health of people regardless of their age or their means. We have provided grants to the University of Hawaii to study ways to reduce pediatric obesity and to provide state of the art education for nurses. On Maui we partnered with the Maui Foodbank and Maui Farm Bureau to get more fresh foods to people in need. We educate elementary school children on healthy living with our education theater program that brings the message of healthy eating and active living to the students at their schools. We participate in state programs to provide health care to people who cannot otherwise afford it and we have our own programs that provide charity care to patients in need.

Kaiser would never abandon these community projects, as we view our contributions to the community we serve as part of our social contract, our moral imperative. Nevertheless, these programs all come with a price tag, in some cases quite high. For example, Kaiser lost some $20Million dollars on its participation in the QUEST program last year, and we project an approximate $27Million loss on QUEST this year. This is because QUEST reimbursements for care do not match the cost of delivering that care.

Thus, not only would imposition of this premium tax be an unfortunate precedent setting erosion of Kaiser's tax exempt status, inconsistent with its public benefit social mission, it could result in some curtailment of Kaiser's community benefit giving, by fiscal necessity. Coupled with the great cost to the community in the form of higher health care premiums, we think this tax is a bad idea. Its unintended consequences would significantly undermine its intended purpose. Kaiser strongly urges that you defer this measure.

Thank you for your consideration.

The Chamber of Commerce of Hawaii
The Voice of Business in Hawaii

Testimony to the Senate Committees on Health and Commerce and Consumer Protection
Monday, March 15, 2010
3:00 p.m.
Conference Room 016

RE: HOUSE BILL NO. 2852 HD1 RELATING TO THE INSURANCE PREMIUM TAX

Chairs Ige and Baker, Vice Chair Green, and members of the committees:

My name is Jim Tollefson and I am the President and CEO of The Chamber of Commerce of Hawaii ("The Chamber"). The Chamber opposes HB 2852 HD1 relating to the Insurance Premium Tax.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

This bill would require all non-profit health plans in the state to pay a graduated general excise tax beginning at 2.265% this year increasing to 4.265% in 2015. Hawaii's Prepaid Healthcare Act mandates employers in the state to provide health care coverage to their employees. Taxing Hawaii's nonprofit health plans will result in an immediate tax increase on Hawaii's businesses. While this legislation is levied on health plans, the ultimate effect is a pass on cost to employers.

The Chamber and our members appreciate the Legislature's efforts to mitigate the enormous cost increases of the unemployment insurance taxes. However, we are concerned that passage of HB 2852 HD1 would in effect negate some of the unemployment insurance tax relief provided. Health care costs, and subsequently the premiums employers pay, continue to rise and the addition of a tax on top of these increases could prove fatal to some businesses.

The Chamber feels that businesses simply cannot afford this type of legislation at this time. With the current state of the economy and the ever increasing cost of health care, business owners are already faced with numerous financial challenges. As a result, this bill may have the unintended consequence of harming small businesses which are crucial to the state's economy. We would strongly urge the Committees hold this measure.

Thank you for the opportunity to express our views.

HAWAII BUSINESS ROUNDTABLE INCORPORATED

1003 Bishop Street • Pauahi Tower • Suite 2630 • Honolulu, HI 96813
Phone: (808) 532-2244 • Fax: (808) 545-2025

Testimony to the Senate Committee on Health and Committee on Commerce and Consumer Protection

Monday, March 15, 2010

3:00 p.m.

Conference Room 016

RE: Relating to the Insurance Premium Tax – House Bill 2852, HD1

Chairs Baker and Ige, Vice Chair Green and Members of the Committees:

My name is Gary Kai and I am the Executive Director of the Hawaii Business Roundtable. The Hawaii Business Roundtable opposes HB 2852, HD1 that proposes to temporarily impose the insurance premium tax on mutual benefit societies and health maintenance organizations. The burden of a tax such as this one will ultimately be paid for by employers who are required to provide health care coverage to their employees as well as the individual purchasers of health care insurance.

This increase in taxes will impact businesses and their employees at a time when they can least afford to pay these increases. At a time when the Legislature approved a decrease to the unemployment insurance contribution rates because of the serious impact of economic well being of business in Hawaii it seems counterproductive to assess a tax that will be ultimately paid by the same businesses. Consumers who purchase insurance, many of whom are retired or unemployed will also be faced with an additional financial burden during these difficult times.

We recognize the great challenge that the Legislature faces during these difficult economic times but we believe that the imposition of this tax will not provide the solution to the problems that confront the State.

Thank you very much for the opportunity to testify.

NFIB

The Voice of Small Business®

Before the Senate Committees on Health and Consumer Protection

DATE: Monday, March 15, 2010

TIME: 3:00 P.M.

PLACE: Conference Room 016

Re: HB 2852 RELATING TO THE INSURANCE PREMIUM TAX
Testimony of Melissa Pavlicek for NFIB Hawaii

We are testifying on behalf of the National Federation of Independent Business (NFIB) in opposition to HB 2852 RELATING TO THE INSURANCE PREMIUM TAX.

This measure temporarily makes the insurance premium tax applicable to mutual benefit societies and health maintenance organizations.

NFIB Hawaii is concerned about the potential costs to employers who will should increases for employee health insurance, and as a result, the potential unintended consequence of reducing small businesses' ability to retain and employ employees. The challenges faced by small businesses in this economy make it particularly difficult to absorb increased costs.

NFIB is the nation's largest advocacy organization representing small and independent businesses in Washington, D.C. and all 50 state capitols, with more than 1,000 members in Hawaii and 600,000 members nationally. NFIB members are a diverse group consisting of high-tech manufacturers, retailers, farmers, professional service providers and many more.

We welcome the opportunity to engage with legislators on this and other issues during this session.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 15, 2010 8:07 AM
To: HTHTestimony
Cc: hlee@uhahealth.com
Subject: Testimony for HB2852 on 3/15/2010 3:00:00 PM

Testimony for HTH/CPN 3/15/2010 3:00:00 PM HB2852

Conference room: 016
Testifier position: oppose
Testifier will be present: Yes
Submitted by: Howard Lee
Organization: UHA
Address: 700 Bishop Street, Suite 300 Honolulu, Hawaii
Phone: 808.532.2526
E-mail: hlee@uhahealth.com
Submitted on: 3/15/2010

Comments:
UHA understands the need for legislature to balance the budget. We oppose this tax measure because it singles out businesses that are so critical to our economic growth. The tax will only increase healthcare premiums while creating additional cost to oversee and manage a special fund that will essentially be used to cover the shortfall in our Medicaid/Quest program.

OUTRIGGER
ENTERPRISES GROUP
Hospitality • Retail • Development

THE SENATE
25th LEGISLATURE
REGULAR SESSION of 2010

COMMITTEE ON HEALTH
Senator David Y Ige, Chair

COMMITTEE ON COMMERCE & CONSUMER PROTECTION
Senator Rosalyn H Baker, Chair

3/15/10
3:00 PM – Room 016

HB 2852, HD 1
Relating to Insurance Premium Tax

Chair Ige & Baker, my name is Max Sword, here on behalf of Outrigger Hotels.

HB 2852, HD 1, would impose a premium tax on all health plans, which Outrigger Hotels strongly opposes.

Just in case anyone is taking notice, business in general, especially the tourism business is taking a hit. We in the hotel business are also going to be facing an increase in the Transient Accommodations Tax (TAT) of 1% in July, for a total of 2% over 2 years.

If this tax is imposed on the health plans we provide for our employees, which the Legislature mandates businesses to provide, we, the hotels will have to absorb the additional cost, because the current market place does not allow us to raise our rates to cover the additional cost.

How long can a hotel, especially a small property last with the burden of on increase in healthcare costs and the impending increase of the TAT?

This is just another tax on business, which ends up being a hidden tax on the general population.

We urge that you defer this bill and thank you for allowing me to testify.

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L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INSURANCE PREMIUMS, Tax on mutual benefit societies, medical workforce promotion, health workforce education or indigent health care tax credit

BILL NUMBER: HB 2852, HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Adds a new section to HRS 431:7 to allow an insurer that offers health insurance plans within the state to claim a medical workforce promotion, health workforce education, or indigent health care program tax credit against the tax imposed under HRS section 431:7-202(a). The amount of the nonrefundable credit shall be equal to the amount that the insurer contributes in cash in the taxable year to a state program that: (1) provides or pays for the increase or education of the medical workforce or health workforce or for the provision of health care to low-income individuals or families; and (2) has been approved by the insurance commissioner.

Amends HRS section 431:7-202, to provide that a mutual benefit society or a health maintenance organization (excluding a fraternal benefit society), shall be taxed at: (1) 2.265% between July 1, 2010 and December 31, 2011; (2) 3.265% between January 1, 2012 and December 31, 2012; and (3) 4.265% between January 1, 2013 and June 30, 2015.

Makes conforming amendments to HRS sections 431:7-204; 432:1-403 and 432D-19.

The insurance commissioner shall consider whether the imposition of the insurance premiums tax on mutual benefit societies and health maintenance organizations by this act may cause their current managed care plan rates to become inadequate. If so, the insurance commissioner shall use the authority under HRS section 431:14G-104 to determine whether the rates should be adjusted.

This act shall be repealed on June 30, 2015; provided that sections HRS 431:7-202(a), 431:7-204, 432:1-403, and 432D-19(d) of this act shall be reenacted in the form in which they read on the day before the effective date of this act.

EFFECTIVE DATE: July 1, 2010

STAFF COMMENTS: It appears that this measure proposes to temporarily impose a tax on mutual benefit societies to generate additional revenues to address the state's financial crisis. But on the other hand, it proposes a credit in the amount that an insurer contributes to a state program that pays for the increase or education of the medical workforce or health workforce or for the provision of health care to low-income individuals or families. It is questionable that on one hand, these health care organizations would be subjected to the insurance premiums tax from which they are currently exempt, but on the other hand be provided a credit for increasing the education of and promotion of a health care workforce. It seems lawmakers want to squeeze out more revenues to make up for the budget shortfall while at the same time try to encourage this specific activity.

It should be noted that while mutual benefit societies are generally of a nonprofit nature and organized to provide payment of benefits to their members and beneficiaries in case of sickness, disability or death, any additional cost imposed on such organizations, such as any tax imposed as a result of the enactment of this measure, will, no doubt, result in additional costs to the organizations which, in turn, may result in decreased benefits or increased premium costs to members.

It is curious that such a proposal would be forwarded when the underlying concept for forming mutual benefit societies was as the name suggests for the mutual benefit of the members. Given the fact that they are nonprofit in nature, and undoubtedly held up to a standard that no profit accrues to any one person or group of persons, subjecting mutual benefit societies to taxation would run contrary to the philosophy that there is no profit.

Given the fact that Hawaii requires employers to provide pre-paid healthcare for all their full-time employees, adding the cost of the insurance premiums tax to the cost of providing medical coverage will merely exacerbate the high cost of health care insurance. This would come at a time when employers are struggling to keep their doors open, coping with weak sales, and rising overhead. While lawmakers granted employers a reprieve this year by mitigating the expected rise in unemployment insurance premiums, this proposal would merely tack on another cost increase at a time when businesses and the economy as a whole cannot afford another blow. While lawmakers may not like the fact that these organizations have accumulated substantial balances, they must remember that those balances are there to offset any unforeseen claims by their members. If there are other issues which trouble lawmakers, then those issues need to be addressed separately. Imposing the insurance premiums tax on what should be nonprofit providers of health care insurance merely increases the cost to the subscriber, first to the employer and ultimately to the employee.

Digested 3/15/10