SB 1134

NAIFA HAWAII

ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS℠

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Committee on Human Services – Senator Suzanne Chun Oakland, Chair

Committee on Commerce & Consumer Protection – Senator Rosalyn Baker, Chair

Hearing Date: ***February 17, 2009***
Time: *1:15 pm*

Re: ***Senate Bill 1134 – Relating to Long Term Care***

Chair Chun Oakland, Chair Baker and members of the Committees, my name is Cynthia Hayakawa, Executive Director of NAIFA ("National Association of Insurance and Financial Advisors") Hawaii, an organization made up of life insurance agents and financial advisors across Hawaii.

We support SB 1134 that will establish a tax credit for resident taxpayers for their long term care insurance premiums.

These LTC insurance policies are "qualified long term care insurance contracts" that satisfies the consumer protection requirements under the NAIC Long-Term Care Insurance Model Regulation and Long-Term Care Insurance Model Act .

For individuals, the tax credit will apply to married couples filing jointly with an adjusted gross income of up to $100,000 and up to $50,000 for an individual taxpayer. The tax credit shall be the ***lesser*** of $2,500.00 for a joint return or 50% of the LTC insurance premium for an individual for the taxable year which payments are made.

The tax credit for LTC insurance premium payments will allow our residents to use this tax incentive ***either as a tax credit or a tax deduction***. The tax deduction is allowed under the Internal Revenue Code and Hawaii tax law for medical services and premium payments, provided that these expenses exceed 7.5% of the taxpayer's adjusted gross income.

In Section 2 of the bill, under (e) – page 6, allows for the taxpayer to claim the tax credit for the various relatives listed under this section. We question whether the taxpayer who pays the LTC insurance premium for ***non-dependent relatives*** as stated above, should be able

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to receive the credit for the relative(s) in addition to his/her own tax credit? If the non-dependent relative is also paying part of the premium on the same policy, that non-dependent relative can also qualify for the tax credit. We suggest that the language be specific in that these non-dependent relatives cannot be claimed by the taxpayer if the taxpayer is taking the credit.

Although our economy is struggling this is really an investment for the future as baby boomers are starting their retirement. Taxpayers will be movtivated by this kind of tax incentive to purchase long term care insurance to protect their assets and to be able to determine their care needs and preferences.

We ask that this measure move forward.

Mahalo for allowing us to share our views.

HAWAII LONG TERM CARE ASSOCIATION

February 17, 2009

TO: Chairs Suzanne Chun Oakland and Rosalyn Baker
Members of the Senate Committees on Human Services and Commerce & Consumer Protection

FROM: Bob Ogawa, President - Hawaii Long Term Care Association

RE: S.B. 1134 -- Relating to Long Term Care Insurance Premium Tax Credit

The Hawaii Long Term Care Association wholeheartedly supports S.B. 1134, which would provide for a tax credit for long term care insurance premiums at the lesser of $2,500 or 50% of the amount of the premiums paid.

In our mission statement, the HLTCA says: "*How we provide for Hawaii's kupuna, chronically ill and convalescent disabled is a measure of the respect and compassion we have for them . . . a reflection of our dignity as a society.*" It is a bitter reality, however, that, as fundamentally as our caring for the State's elderly and disabled is driven by true Aloha, that mission of love is inevitably and inextricably tied to economics.

Nursing home costs often exceed a family's ability to pay, threatening financial self-sufficiency, even survival. Even those who seek greater utilization of home-and community-based services find that such services are still costly in their own right. There are social and familial prices to pay as well. As the dependency of an elder increases over the years, caregivers -- usually the family -- may work reduced hours at their jobs; adjust or abandon career and personal goals; place their own health in jeopardy; expose themselves to increased debilitation from overwork as they age; and retire earlier than intended, resulting in lower pensions and retirement benefits. This problem is magnified when one considers the high cost of living in Hawaii and the necessity for people to hold two or more jobs.

Federal and state financing of care cannot continued to be relied upon as the end-all and be-all for long term care. A significantly larger, if not primary, proportion of long term care financing has to come from private insurance.

Establishing a long term care insurance premium tax credit, as described in this measure, would provide a substantial incentive and stimulus in moving our citizenry in an absolutely necessary direction.

We urge your passage of this legislation. Thank you.

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Testimony to the Senate Committees on Human Services and Commerce and Consumer Protection
Tues., Feb. 17, 2009 1:15 p.m.
Conference Room 016, State Capitol

Re: SB1134 Relating to Long-Term Care

Chair Chun Oakland, Chair Baker, and committee members:

I am Carolyn Fujioka on behalf of State Farm Mutual Automobile Insurance Company, a mutual company owned by its policyholders. State Farm supports SB1134.

State Farm supports measures that will improve affordability, availability and choice in health insurance. Incentives such as the tax credit proposed in SB1134 for Long-Term Care premiums, will encourage individuals to take responsibility for providing for their, and their loved ones, potential future needs, through purchase of Long-Term Care coverage that best serves their individual circumstances.

A tax credit will effectively lower the cost of purchasing a Long-Term Care policy. The greater the tax credit provided, the more incentive people will have to purchase coverage for their future needs.

Thank you for the opportunity to testify.

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS
IN SUPPORT OF SB 1134, RELATING TO LONG TERM CARE

February17, 2009

Senator Suzanne Chun-Oakland, Chair
Committee on Human Services
Senator Rosalyn H. Baker, Chair
Committee on Commerce and Consumer Protection
State Senate
Hawaii State Capital, Conference Room 016
415 S. Beretania Street
Honolulu, HI 96813

Dear Chair Chun-Oakland, Chair Baker and Committee Members:

Thank you for the opportunity to testify in support of SB 1134, relating to long term care.

Our firm represents the American Council of Life Insurers ("ACLI"), a national trade association whose three hundred forty (340) member company's account for 94% 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 fifty-three (253) ACLI member companies currently do business in the State of Hawaii.

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.

ACLI supports SB 1134, which provides an income tax credit to qualified resident individual taxpayers in an amount equal to the lesser of $2,500 or 50% of the cost of the long-term care insurance premium. Married couples filing jointly may qualify for the tax credit only if their adjusted gross income is $100,000 or less; individual taxpayers qualify only if their adjusted gross income is $50,000 or less.

Again, thank you for the opportunity to testify in support of SB 1134.

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Testimony for SB1330
Camille Rockett, Masters of Social Work Student, UH Manoa
Before the House Committee on Hawaiian Affairs
Wednesday, February 11, 2009

PLEASE PASS THIS BILL!

I am writing to support the passage of SB1134, to provide tax credits for residents who pay for long term care insurance.
I am a Master's student in the School of Social Work at UH Manoa, and I'm currently interning at Wahiawa General Hospital.

At Wahiawa General, I see many elderly patients who are facing their last few months of life but have no means to provide care for themselves. Often times, they can only afford to be sent home with family who don't have the training or time to provide basic care, and they often soon return to the hospital after neglect or medical issues due to lack of care. I have yet to encounter a patient who has long term care insurance and can thus afford to go into a nursing home or have a caregiver come to their home.

There is a huge disparity between the costs of long term care and what elderly people can afford. The costs of nursing homes for patients who are not in active rehabilitation are between $6,000 and $10,000 per month, more than twice or three times of what most families make in a month. Only certain insurances will pay for nursing home care, but the patient must be in their last days of life. Many patients can no longer care for themselves at home and cannot afford nursing homes, but have many more years to live.

These patients are the "frequent fliers" in the hospital. They fall at home and are not found for hours or days. They are unable to go to the store for food and are malnourished or have severe medical complication. Many cannot remember to take medicine. The hospital is their only savior, but once they return to baseline, they are charged $1000 per day to remain in the hospital. They must return home unless they have some means of paying for long term care.

Please please pass SB1134. Please begin to help our older residents afford to have a safe and happy end of life stage. Long term care insurance is only the first step in creating infrastructure that will ensure our elderly are cared for. As the number of older persons will only continue to grow over the coming years, if something is not done immediately, the financial, social, and societal effects will be disastrous.

TESTIMONY SUBMITTED for Tuesday, Feb. 17, 2009

TO: COMMITTEE ON HUMAN SERVICES
Senator Suzanne Chun Oakland, Chair
Senator Les Ihara, Jr., Vice Chair

TO: COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
Senator Rosalyn H. Baker, Chair
Senator David Y. Ige, Vice Chair

TESTIMONY FOR HEARING on Tuesday, Feb. 17, 2009, 1:15 p.m., State Capitol Rm. 016

SB 1110: Relating to Long-Term Care: I testify in favor of this bill, knowing that the cost of Long Term Care, and increased longevity means that more individuals will "outlive" the Long Term Care Insurance benefits they have bought. There probably will be individuals who will exhaust their benefits, especially since the year 2011 is when Baby Boomers will turn 65 years of age and more will be living to beyond 85 years. This demographic reality means that we must put into place an "aging safety net" and infrastructure" with good public policy meant to meet the needs of a society that is living longer and will be demanding home and community-based services at an unprecedented rate.

SB 1134: Relating to Long-Term Care: I testify in favor of this bill as I think we need to "incentivize" individuals to invest in their own aging and personal demand for home and community-based services. A tax credit has long been talked about and, if enacted, would be another part of the "aging safety net and infrastructure" needed for an increasing aging society.

SB 1204: Relating to Long-Term Insurance Tax Credit for Small Business: I testify in favor of this bill as it addresses a solid fact, as solid as the "aging of society" and that is the "aging work force". Not only are employees aging but they are more and more faced with care giving and issues related to their own aging and need for home and community-based services. An aging workforce means that Employers will increasing see long term care insurance as needing to be added to their employee benefit packages. This is public policy that is cognizant of the increased importance of aging and longevity in society. "Incentivizing" Employers is also a part of good aging policy.

Mahalo,
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SENATE COMMITTEES ON HUMAN SERVICES AND COMMERCE & CONSUMER PROTECTION

TESTIMONY REGARDING SB 1134 RELATING TO LONG-TERM CARE

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 17, 2009
TIME: 1:15PM
ROOM: 016

The purpose of this bill is to provide a refundable net income tax credit to Hawaii residents for the purchase of long-term care insurance.

The Department of Taxation **supports the intent** of this bill and has supported such measures in the past; however **cannot support the unbudgeted revenue loss this session**.

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.

II. INDIVIDUAL LONG-TERM CARE TAX CREDIT

This bill creates a refundable long-term care tax credit for individual taxpayers. This tax credit is based upon a taxpayer's filing status and adjusted gross income. The credit is available to married taxpayers who file a joint return and who have adjusted gross incomes of $100,000 or less; for all other individual taxpayers who file a return, including married couples filing a separate return, the credit is available for those with adjusted gross incomes of $50,000 or less.

Subject to the cap on the total amount of the credit, the taxpayer may claim the tax credit for qualified long-term care insurance that the taxpayer purchases for the taxpayer, a spouse, a son or daughter, a stepson or stepdaughter, a father or mother, a stepfather or stepmother, or a dependent (as defined in tax law) living in the taxpayer's home.

The Department points out one issue with the bill, namely that the credit is for an amount up to $2,500 for an individual, including a husband and wife filing a joint return. This provision essentially penalizes a couple filing joint. The Department suggests eliminating this provision and allowing up to $5,000 for a married couple.

III. OPPOSITION TO UNBUDGETED REVENUE LOSS

The Department cannot support the tax provision in this measure this session because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

IV. REVENUE IMPACT

This legislation will result in a revenue loss to the general fund of approximately $6 million per year.

Kokua Council
Testifier: Laura Manis tel.597-8838
COMMITTEE ON HUMAN SERVICES
Senator Suzanne Chun Oakland, Chair, Senator Les Ihara, Jr., Vice Chair

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION Senator Rosalyn H. Baker, Chair, Senator David Y. Ige, Vice Chair

Tuesday, February 17, 2009 1:15pm Conference Room 016

SB 1134 RELATING TO LONG-TERM CARE. Provides tax credit to resident taxpayers for long-term care insurance premiums at lesser of $2,500 or 50% of the amount of the insurance premium paid.
OPPOSE

Kokua Council whose mission includes advocating for the elderly, cannot support this bill because it does not fit our criteria of covering as many people as possible. It will be an expense to the state and we believe will not slow down the rising costs of Medicaid. I am also offering testimony on behalf of PABEA, the Policy Advisory Board for Elder Affairs, which is an appointed board tasked with advising the Executive Office on Aging (EOA). My testimony does not represent the views of the EOA but of the Board.

This bill will only help those people who can afford to pay the premiums and wait a year to get only a percentage of the cost back.,--about 6-10% of taxpayers.

Here is a list of people who would not quality for a tax credit because they are not likely to buy LTC insurance.

€ People with health conditions are not accepted by private insurers.

€ Private insurance is expensive. Many people in the low middle and middle income bracket cannot afford to buy private insurance and then wait a year to get only a tiny part of their outlay returned.

€ A tax credit is not an incentive for younger people to buy LTC insurance, when they have the expenses of raising a family, are healthy and think their need for Long term care is a long way off, if they are thinking of it at all.

€ According to the Physicians for a National Health Program, 75% of people who went medically bankrupt had health insurance, homes and jobs. Insurance only partially covers expenses.

€ Taking money out of state funds for the 10% who can afford to buy LTC insurance, increases the burden on the rest of the taxpayers who get no benefit. The state is subsidizing people who are wealthy enough to buy LTC insurance.

€THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS Long Term care Insurance Experience Reports-Form C data as of July 11, 2002 reports that the number of insured in Hawaii is 28,160 paying a premium total cost of $91,134,970. If the $500 tax credits take effect, the state will have to pay out about $14 MILLION from the general fund. How can we afford this?

€ Having only this small percentage of the population insured is a guarantee that most of the others will end up on Medicaid within a few months of paying for long term care services.

€ Every analysis by policy researchers on the subject conclude tax incentives do not encourage more people to buy long term insurance. See latest analysis completed in November 2006 on following pages.

State Programs to Encourage

Long Term Care Insurance

Policy Brief 001 November 2006

by David C. Nixon

This policy brief summarizes a detailed report available on our website about the impacts of state incentive programs on an individual¹s decision to purchase long term care insurance. State governments across the nation are becoming acutely aware of the increasing costs of medical care for the elderly and disabled. Many observers see a significant financial crisis looming. As the baby boom generation ages, and Medicaid costs grow, states will be spending more and more of their budgets to cover these costs. Hawaii¹s share of Medicaid expenditures will more than double between now and 2020. Encouraging individuals to purchase private long term care insurance has been seen as one solution to this crisis. If individuals purchase long term care insurance in the private market,the state¹s Medicaid expenditures may not grow as quickly.

Our report examines two efforts by state governments to encourage people to buy long term care insurance for themselves: (a) tax incentives for either individuals or employers who buy long term care insurance, and (b) an experimental program sponsored by state governments and the private sector insurers and implemented in four states, called the Long Term Care Insurance Partnership. The Partnership programs encourage long term care insurance sales by allowing people who buy long term care insurance for themselves to avoid the asset rules for Medicaid eligibility, if they exhaust their private insurance benefits. The insurance policies eligible for the Partnership provide extensive long term care benefits, so the program potentially encourages more long term care insurance sales without exposing the state Medicaid program to additional claimants. Recent federal legislation allows any state to establish a Partnership program patterned on the pilot programs through a Medicaid waiver request.

Key Findings

€ State tax incentives for long term care insurance premiums of a magnitude offered in about a dozen U.S. states have not induced additional sales of insurance beyond what could be expected without the incentives.

€The Long Term Care Partnership program implemented in four states has similarly failed to induce additional sales of private insurance for long term care beyond what could have been predicted from demographic factors alone.

We examined the number of private sector long term care insurance policies sold in each state, as reported in 2004 by America¹s Health Insurance Plans (formerly the Health Insurance Association of America). There is significant variation across the states in the size of the local long term care insurance market. In Alabama, less than 2% of the over-50 population is insured for long term care with a private policy, while over 15% of the over-50 population in South Dakota is so insured.

Policy analysts and policy makers hope to move those market figures above 50%, in order to avoid the huge Medicaid claims that will impact governments in the coming decades.

Results of a statistical model to predict sales of long term care insurance policies demonstrates that income, expected health, and family support factors are significant determinants of the size of the long term care insurance market in each state.

When a state[1]s population has higher income, a greater expectation of experiencing old-age disabilities, and lower incidence of living with their children in old age, sales of long term care insurance are significantly higher. Our findings demonstrate that the availability of one[1]s children as potential long term care givers has a very strong influence on one[1]s decision to purchase long term care insurance. Family support has a strong direct effect on aggregate long term care insurance sales. A more integrated family structure also reduces the degree to which older people incorporate health expectations into their long term care insurance purchase decisions.

For example, in state populations with limited availability of children as caregivers, such as midwestern rural states, expectations about one[1]s health in old age are a significant factor in one[1]s decision to purchase long term care insurance. But in states where the older population more frequently lives with its children, such as Hawaii, expectations about one[1]s health in old age are not significantly related to long term care insurance sales.

We conclude by pointing out that the subsidies provided in the state incentive plans we examined are very limited, relative to the typical cost of premiums. Even though a 50 year old might expect to pay $2000 a year or more for long term care insurance, existing state subsidies would defray no more than $500 of that cost, and more typically about $200. It turns out incentives this range are insufficient, by themselves, to prompt anyone to buy a long term care insurance policy. Several tax plans considered by the Hawaii legislature in recent years have been within this range of subsidy.

While state subsidies are meager for individuals, the sum total of such incentives are costly to the states. Because they are not prompting new purchases of insurance, those tax dollars are being wasted on people who would have purchased long term insurance anyway. Unless states enact substantially more generous subsidies and focus the subsidies on more price conscious potential buyers of insurance, the programs are counterproductive.

They draw resources away from state coffers that could be better spent preparing for the approaching long care crisis.

A copy of this Policy Brief or the full Report on which it is based can be found at www.publicpolicycenter.hawaii.edu/reports.html

About the Author

David C. Nixon is a Visiting Associate Professor of Public Policy at University of Hawaii and Associate Professor of Political Science at Georgia State University. He earned a Ph.D. in political science from Washington University in St. Louis, and specializes in policymaking by appointed officials.