



**Written Testimony to the House Taxation Committee  
Presented by Beverly Gossage, President HSA Benefits Consulting**

Date: February 29, 2012

Subject: House Bill 2717- Tax Treatment for Insurance Contributions

Mr. Chairman and Members of the Committee

It is an honor to address this committee today. My name is Beverly Gossage, President of HSA Benefits Consulting. I am the Vice President and Legislative Chair of the Greater Kansas City Association of Health Underwriters. Today I am here to give testimony on how HB 2717 can give small business employers and their employees a tax savings and can help cover more uninsured Kansans.

**Purpose:**

This bill addresses three problems in our state:

*Problem 1: Uninsured Kansans*

According to the latest Kaiser Foundation Study, only 39 percent of Kansas small business owners offer group health insurance. So it is not surprising that healthreform.gov reports that half of workers in small firms that do not offer health benefits are uninsured.

*Solution:* Allow small business owners to pay pretax toward employees' individually purchased, underwritten policies through a health reimbursement arrangement with a defined contribution.

*Problem 2: Skyrocketing small group insurance premiums*

Under current law if an employer pays toward a health insurance premium, the policy could be considered a group plan and, therefore, subject to burdensome, expensive group regulations, such as group mandates, guaranteed issue, and community rating.

*Solution:* Exempt employer contributions toward an individual policy through a health reimbursement arrangement from small group rules. Premiums on private policies are often less expensive than group plans. This table illustrates average rates in Kansas.

AVERAGE ANNUAL HEALTH INSURANCE PREMIUMS	
▶ Individual Market Single .....	\$2,615
▶ Individual Market Family .....	\$5,529
▶ Small Group Market Single .....	\$4,632
▶ Small Group Market Family .....	\$12,156

*Source:* <http://www.ahip.org/State-Data-2011/>

*Problem 3: Discrimination in health insurance premium tax law*

*Solution:* Equalize the tax deduction on health premiums for private, individual policies

**Background:**

Small group health insurance is eroding annually. 12 percent of small employers dropped health insurance in just the last two years according to [healthreform.gov](http://healthreform.gov). Small group employers give many reasons for this decision:

1) *Lack of time and personnel*

Particularly in this economy, small business owners do not have a fulltime HR department to oversee the health insurance benefits. Some businesses in Kansas hire employees who work remotely from other areas around the state. Finding a small group policy with a broad network to cover these employees can be daunting. The employer is busy trying to run the company, make a profit, and keep employees on the payroll.

2) *High cost of group premiums*

State and federal mandates, guaranteed issue, community rating and the demographics of the group can lead to high premiums. Due to the small pool, if one person develops a severe health issue, everyone can experience significant rate increases at renewal.

3) *Employee participation requirements*

To avoid adverse selection, most carriers mandate that at least 50% of the full time eligible employees and 75% of employees without other group coverage be on the plan. Often expensive premiums and other factors can make it difficult to meet those participation percentages.

4) *Employer contribution requirements*

Carriers require that the employer pay at least 50% of the employee premium. As rates accelerate, employers find that they can't keep increasing this portion of their employees' compensation, so they drop the plan and might increase salaries somewhat in an attempt to stay competitive and retain employees. But they and the employees receive no tax deduction on that portion of salary which the employee could apply to purchasing a policy.

5) *Retention*

1 in 4 employees change jobs annually and go in and out of employer group plans. This can make it especially difficult for a small business to keep up with the paperwork and budget for insurance costs. At each annual renewal they could have a very different employee pool which could drastically affect the premium. When one person leaves a pool of 5 people the underwriting changes by 20%.

6) *Portability*

Kansas requires that employees be offered state continuation when they leave a group plan. In many cases, employers must do the paperwork to offer the employees this option and monitor if the terminated employee has paid the full premium and is still on the plan. They must keep up with the ever changing legislation. Even then, group plans are only portable for a time until the employee has exhausted the continuation period.

Nearly ten percent of insured, non-senior Americans are covered by a private policy. This growing population is apparent in the number of group insurance carriers who have entered the competitive individual marketplace in the past three years and now advertise these private policies on billboards, radio and television.

*Yet, about 30 percent of workers in firms with fewer than 25 employees are still uninsured.*

**Expected outcome of HB 2717:**

- 1) *More employers will contribute to employees' premiums.*

Some employers who currently do not offer a group plan will be more likely to encourage employees to select a private health insurance policy to which they, the employer, can contribute and receive a tax deduction. Minimum number of employees participating and minimum premium percentage requirements will no longer be barriers to coverage.

- 2) *More employees will become insured.*  
Employees will be more likely to purchase a policy if the employer contributes to the premium and employees can receive a tax deduction on their premiums.
- 3) *Employees will have more coverage options.*  
Since employees have more choices in the private market, they can act as consumers, selecting the best policy for their needs.
- 4) *More part time employees will be covered.*  
A group plan requires full time employment for coverage. An employer could now offer premium assistance to part time employees.
- 5) *Fewer uninsured due to job loss.*  
If the employee was laid off or changed jobs, the employee with a private policy has the security of knowing that his policy is intact.
- 6) *Fewer insured dropping policies.*  
Employees are part of larger pool of insured in the state. The policy cannot be cancelled nor his rates increased due to his personal claims; his newborn babies can be added to his policy within the first 31 days of birth without going through underwriting; and with many plans, his adult child could be transferred to an individual policy without going through underwriting, building a ladder of the insured. Those currently insured could have employer premium assistance to help them pay for their policy.
- 7) *Healthier employees.*  
This ownership provides for more judicious utilization of the benefits and promotes wellness.
- 8) *Fewer uninsured due to equalized state tax deduction for individuals.*  
As the popularity of individual plans has increased, the injustice of the tax system has become more pronounced. If his employer doesn't offer a tax favored arrangement, an individual will at least receive a state tax deduction on his personal health policy.
- 9) *More jobs.*  
Employers who can budget employee compensation by determining a defined contribution toward a health insurance policy are more likely to hire employees.

## **Conclusion**

In the most recent NFIB survey of small business owners' top ten concerns, *health insurance rates* continued to rank number one. Four of the top ten were related to needing *tax relief* and number six was burdensome *government regulations*. HB2717 addresses these issues.

Turning uninsured employees into insured consumers benefits all Kansans, not just small business employers. This is common sense health reform upon which we can all agree. It takes a step toward equalizing the tax treatment of personal health insurance policies and will cover more uninsured Kansans without using tax payer dollars to subsidize premiums.

I will gladly stand for your questions.