Approved: February 13, 2004
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Vice Chairman Les Donovan at 10:40 a.m. on February 10, 2004, in Room 519-S of the Capitol.

All members were present.

Committee staff present:
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee:
Sandy Prager, Commissioner of Insurance
Senator James Barnett
Barb Hinton, Legislative Division of Post Audit
Jim Edwards, Kanss Association of School Boards

Others attending:
See Attached List.

SB 370–Income tax deduction for long-term care insurance premiums paid by an individual

Insurance Commissioner Sandy Prager testified in support of **SB 370**. She explained that the bill would amend the current Kansas income tax law allowing for state income tax credits on premiums paid for a federally qualified long-term care coverage policy and that the credits could be an incentive for individuals to purchase long-term care insurance. She noted that many Kansans will not have the income to provide for long-term care beyond 120 days. Many of them will become Medicaid dependent, placing even more pressure on a financially challenged Medicaid program. (Attachment 1)

Commissioner Prager commented that, in the past, the Legislature has never disagreed with the concept of a tax credit for purchasing long-term care insurance; however, the revenue loss to the state versus the potential savings down the road has always been a debated subject. She pointed out that long-term care is the most rapidly growing piece of the Medicaid budget, and keeping a percentage of individuals off Medicaid through long-term health care insurance would have a positive fiscal impact for the state. She noted that a study conducted by the Employee Benefit Research Institute demonstrated that, all things remaining the same in terms of levels of benefit and the average cost, it will cost Kansas another $700 million annually by 2032 to provide for the Medicaid eligible, which includes an increased number of persons because of the aging baby boom generation. She commented that the tax credit would not only benefit the state in the long run but also the individual taxpayer who will retain the ability to choose where to receive services. She said that goal of the bill is to target individuals most likely to become Medicaid eligible–middle to lower income individuals. She pointed out that the $500 deduction would not cover the total cost of the premium.

Senator Barnett testified in support of **SB 370**. He noted that, currently, Kansas has 15,829 persons on Medicaid in nursing homes, costing Medicaid $470 million per year. The annual cost for a person staying in a nursing facility under Medicaid is $29,412, and the average annual cost for a person on the Home and Community Based Services/Frail Elderly (HCBS/FE) waiver is $11,040. The average length of stay in a nursing facility is 2.94 years, and the average length of stay in the HCBS/FE waiver is 2.04 years. He explained that the bill allows a $500 deduction beginning in Fiscal Year 2006, and the deduction increases to a maximum of $1,000 by January 1, 2010. By gradually accelerating the deduction, Kansas has an opportunity to create an incentive for Kansas citizens to acquire long-term coverage and not further worsen the state's budgetary problems. (Attachment 2)

Senator Lee commented that the State of Kansas now spends more on Medicaid than on all of the regents institutions.

Barb Hinton, Legislative Division of Post Audit, informed the Committee that **SB 370** addresses an issue raised in a 2002 performance audit entitled "Medicaid Cost Containment: Controlling Costs of Long-Term Care." The audit identified a number of actions the state could take to limit how much it pays for long-term care for low income Kansans. One of the options was to provide incentives, such as a tax credit, that would encourage people to buy long-term insurance. However, the audit report suggests that Kansas may want to limit the income on which premiums are deductible because individuals with high incomes are less likely to later qualify for Medicaid services. Ms. Hinton noted that the bill would provide a tax deduction for anyone who purchases long-term care insurance, regardless of income. But the deduction may encourage more middle and upper and middle income people to buy long-term care insurance. In addition, the deduction may encourage more people to purchase long-term care insurance rather than shifting or structuring assets in such a way that they become eligible for Medicaid while still protecting their assets. In conclusion, she cautioned that the bill may not help low income people a great deal because, most likely, they cannot afford long-term care insurance even with the tax deduction. She discussed additional steps the state could take in order to make long-term care more affordable. (Attachment 3)

Senator Corbin called the Committee's attention to written testimony in support of **SB 370** submitted by William W. Sneed with Polsinelli, Shalton, and Welte, a professional corporation. (Attachment 4)

There being no others wishing to testify, the hearing on **SB 370** was closed.

Senator Corbin called upon Jim Edwards, Kansas Association of School Boards, to present information requested at the hearing on **SB 403**, the Governor's Education First plan. Mr. Edwards briefly discussed data on the number of employees employed by school districts and their salaries, and he responded to questions from committee members. (Attachment 5)

Senator Donovan moved to approve the minutes of the February 5 and 6, 2004, meetings, seconded by Senator Buhelr. The motion carried.

The meeting was adjourned at 11:35 a.m.

The next meeting is scheduled for February 11, 2004.