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To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Consumer Protection and Commerce

Date: Wednesday, February 11, 2015
Time: 2:30 P.M.
Place: Conference Room 325, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 18, H.D. 1, Relating to Long-Term Care

The Department of Taxation (Department) appreciates the intent of H.B. 18, H.D. 1 and provides the following comments for your consideration.

H.B. 18, H.D. 1 creates a nonrefundable income tax credit for the costs of long-term care insurance. The credit would be available to all taxpayers subject to Hawaii's income tax; provided their adjusted gross incomes (AGI) do not exceed certain thresholds. The credit is a percentage of the long-term care insurance premium payments up to a fixed cap per taxpayer per taxable year. The AGI thresholds, credit percentages, and cap amount are unspecified in this measure's current form. The bill has a defective effective date of July 1, 2050.

H.B. 18, H.D. 1 defines long-term care insurance and limits the credit to insurance costs for the taxpayer and certain of the taxpayer's family members. Thus, to enforce compliance the Department must confirm that each claim is for a long-term care insurance contract and that each contract is for the taxpayer or the taxpayer's family members. To ensure proper enforcement, the Department would require taxpayers to attach their insurance contracts with their tax returns.

The Department notes that H.B. 18, H.D. 1, was amended to make the proposed credit nonrefundable. Due to this proposal, the Department suggests the following amendments:

(1) delete subsection (f) from the bill; and
(2) delete the following language as stated on page 1 line 14 through page 2 line 2, "provided that an individual who has no income taxable under this chapter, and who is not claimed or is not otherwise eligible to be claimed as a dependent by a taxpayer for Hawaii state individual income tax purposes may claim this credit".

These amendments will remove language from the bill that is inconsistent with a nonrefundable credit.

The Department further notes that the carryforward of unused credit is not automatic. If the Committee intends that any amount of credit exceeding a taxpayer's income tax liability in the year generated be carried forward and used in subsequent years, the bill must be amended to explicitly state that.

Thank you for the opportunity to provide comments.

TO: HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
Rep. Angus L.K. McKelvey, Chair
Rep. Justin H. Woodson, Vice-Chair

FROM: Eldon L. Wegner, Ph.D.
POLICY ADVISORY BOARD FOR ELDER AFFAIRS (PABEA)

HEARING: 2:30 pm Wednesday , February 11, 2015
Conference Room 325, Hawaii State Capitol

SUBJECT: HB 18 HD1 Relating to Long-Term Care Insurance

POSITION: The Policy Advisory Board for Elder Affairs **opposes** HB 18 HD1, which would provide tax credits for persons purchasing private long-term care insurance.

RATIONALE:

The Policy Board for Elder Affairs has a statutory obligation to advocate on behalf of the senior citizens of Hawaii. While we advise the Executive Office on Aging, we do not speak on behalf of the Executive Office of Aging.

Although private long-term care insurance may be sensible for persons who can afford it and who qualify for coverage, tax incentives for purchasing long-term care insurance has been shown to be ineffective as an incentive to purchase long-term care insurance in numerous studies, including a thorough analysis of the results in states who have adopted this approach by Dr. David Nixon of the UH-Manoa Public Policy Center. We oppose HB 18 HD1 for the following reasons:

$ Studies show that tax incentives do not significantly increase the number of persons who purchase private long-term care insurance. **Please pay attention to the results of numerous studies which examined this question**.

$ Persons who purchase private long-term care and claim this tax credit are among the more affluent population – thus, this program uses tax dollars to subsidize those who can afford to purchase the insurance without assistance.

$ Tax credits reduce the state revenues and thus make it more difficult to provide the public services which are needed by the vast majority of frail elderly and disabled persons who cannot qualify for or afford private long-term care insurance.

$ The Long-Term Commission established by the Legislature in 2008 reported in 2012 that it had examined this proposal among others and concluded that this was an unwise and ineffective solution to financing long-term care. Instead, the Commission recommended that a universal, limited public long-term care insurance program be established, which would be financed by mandatory contributions. By spreading the contributions to all Hawaii residents, it would be affordable but still provide meaningful assistance. The public insurance would also result in more affordable private long-term care insurance as a supplement to those who could qualify. This program is proposed in the current session in **SB 727; HB 1253**.

We urge you to oppose HB 18 and instead to support HB 1253 and SB 727.

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS
IN SUPPORT OF HB 18, HD 1, RELATING TO LONG TERM CARE

February 11, 2015

Honorable Representative Angus L. K. McKelvey, Chair
Committee on Consumer Protection and Commerce
State House of Representatives
Hawaii State Capital, Conference Room 325
415 S. Beretania Street
Honolulu, HI 96813

Dear Chair McKelvey and Committee Members:

Thank you for the opportunity to testify in support of HB 18, HD 1, relating to long term care.

Our firm represents the American Council of Life Insurers ("ACLI"), a Washington, D.C., based trade association with more than 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Two hundred nineteen (219) ACLI member companies currently do business in the State of Hawaii; and they represent 92% of the life insurance premiums and 89% of the annuity considerations in this State.

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 HB 18, HD 1, which provides an income tax credit to an individual taxpayer having an adjusted gross income of an unspecified amount. The amount of the tax credit is equal to the lesser of an unstated dollar amount or an unspecified percentage of the long-term care insurance cost paid by the taxpayer.

Again, thank you for the opportunity to testify in support of HB 18, HD 1.

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NAIFA HAWAII

House Committee on Consumer Protection & Commerce
Hearing Date: February 11, 2015
Time: 2:30 pm Room 325

RE: HB 18 – Relating to Long Term Care

Chair McKelvey, Vice Chair Woodson, and members of the Committee, the National Association of Insurance and Financial Advisors (NAIFA) Hawaii is made up of life insurance agents throughout Hawaii, who primarily market life, annuities, long term care and disability income insurance products.

We support the intent of HB 18, HD1, that will allow a nonrefundable tax credit to Hawaii taxpayers who purchase long term care insurance. The amount of the tax credit (based on adjusted gross income) and the maximum amount of the credit have blank amounts (page 2).

The long term care insurance policies purchased to qualify for this tax credit is defined in Section 431:10H-104, HRS, specifically, a "qualified" LTC insurance contract (not a health plan, nor Medicare) and compliant with the Health Insurance Portability and Accountability Act of 1996, P.L. 104-191, on consumer protections.

On pages 3-4 of the bill, the current long term care insurance marketplace may **not** include extended family coverage so the extended family tax credits may not be applicable.

We have testified and supported similar measures over the years. We also ask to consider allowing **employers** to qualify for this tax credit for LTC insurance contracts for their employees when purchased as an employee benefit. Employers will then be able to deduct the insurance premium payment and employees will benefit from the "multi life" discounted rates should they volunteer to purchase more coverage. This tax credit will be an incentive to both the employers and employees to purchase LTC insurance.

Government's support of a tax incentive in encouraging individual responsibility for long term care financing is a step towards solving this complex issue. Our citizens will have these products to protect themselves against catastrophic long term care expenses. The expansion of this market will reduce Medicaid outlays and future costs to both the federal and state governments.

Mahalo for allowing us to share our views.

Cynthia Takenaka
Executive Director

SUBJECT: INCOME, Credit for long-term care insurance premiums

BILL NUMBER: HB 18, HD-1

INTRODUCED BY: House Committee on Human Services

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a nonrefundable long-term care tax credit of $____ depending on a taxpayer's adjusted gross income and tax filing status. The credit shall be the lesser of $_______ or ____% of the cost of any long-term care insurance premium payment made for the taxable year in which the payments were made.

The credit is applicable to a long-term insurance contract that covers: (1) the taxpayer; (2) the taxpayer's dependent; (3) the taxpayer's spouse; (4) a son or daughter of the taxpayer; (5) a stepson or stepdaughter of the taxpayer; (6) the father or mother of the taxpayer; or (7) a stepfather or stepmother of the taxpayer.

If a deduction is taken pursuant to IRC section 213 (with respect to medical, dental, etc., expenses) no tax credit shall be allowed for that portion of the cost of long-term care insurance for which the deduction was taken.

Requires all claims for the tax credit, including any amended claims, to be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit. No refunds or payment of the tax credit shall be made for amounts less than $1.

EFFECTIVE DATE: Tax years beginning after July 1, 2050

STAFF COMMENTS: This measure provides an incentive to taxpayers to purchase long-term care insurance by allowing taxpayers to claim a credit for amounts paid for such insurance. While the proposed measure would merely result in a partial refund of the amount taxpayers paid for long-term care insurance premiums, the question now is whether or not the state can afford an incentive given all the other competing requests and proposals for new tax credits.

Digested 2/10/15

woodson2-Rachel

From:	mailinglist@capitol.hawaii.gov
Sent:	Monday, February 09, 2015 12:58 PM
To:	CPCtestimony
Cc:	bkahana1@gmail.com
Subject:	Submitted testimony for HB18 on Feb 11, 2015 14:30PM

HB18
Submitted on: 2/9/2015
Testimony for CPC on Feb 11, 2015 14:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
barbara kahana	Individual	Support	No

Comments: Support efforts to give credit to those paying for LTC insurance. I don't think there should be any requirement for qualification other than the fact individual is paying for LTC insurance. Adjusted gross income shouldn't matter. Long term care is costly and anyone paying for insurance should get credit. Language should be such that the taxpayer is not penalized for taking credit under healthcare deduction or LTC deduction - choice should be the greater of the credit, not less.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov

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The Twenty-Eighth Legislature
Regular Session of 2015

HOUSE OF REPRESENTATIVES
Committee on Consumer Protection and Commerce
Rep. Angus L.K. McKelvey, Chair
Rep. Justin H. Woodson, Vice Chair
State Capitol, Conference Room 325
Wednesday, February 11, 2015; 2:30 p.m.

STATEMENT OF THE ILWU LOCAL 142 ON H.B. 18, HD1
RELATING TO LONG-TERM CARE

The ILWU Local 142 supports H.B. 18, which provides nonrefundable tax credits to resident taxpayers for long-term care insurance premiums.

The Legislature is well aware of Hawaii's rapidly aging population. In 2012, Hawaii had the highest percentage of residents over the age of 85 in the U.S. This is the population that will very likely require long-term services and supports, including nursing home and in-home professional caregiver services.

Long-term care insurance is available to cover, at least in part, the cost of these services, but too many Hawaii residents have not elected to enroll in these plans, in part because of the cost of premiums and also because of limited coverage. H.B. 18, hd1 provides a tax credit as an incentive for residents to purchase long-term care insurance, either for themselves or for others. A tax credit would serve as both an incentive and a reward for those who assume responsibility for their long-term care needs.

The ILWU believes that the State must be involved in helping those needing long-term care services—either through tax credits for the purchase of long-term care insurance or through some other financing mechanism that will make long-term care more affordable.

We urge passage of H.B. 18, HD1. Thank you for considering our testimony.