F I S C A L I M P A C T R E P O R T

SPONSOR: Lopez DATE TYPED: 3/04/03 HB

SHORT TITLE: Long Term Care Insurance Premiums Tax Credit SB 337/aSPAC

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	($6,000.0)	($6,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to

HB-359, Long Term Care Insurance Premiums Tax Credit

SOURCES OF INFORMATION

LFC files

Responses Received From:
Taxation and Revenue Department (TRD)
Health Policy Commission (HPC)
Human Services Department (HSD)

SUMMARY

Synopsis of SPAC Amendment

The Senate Public Affairs amendment provided clarification regarding the title of a proposed new section of statute.

Synopsis of Original Bill

Senate Bill 337 amends the Income Tax Act to allow a taxpayer who files on an individual basis and who is not a dependent of another individual to claim a credit of up to 25% of the cost of a long-term care insurance premium. SB337 also allows a husband and wife that file separate returns, when they could have filed a joint return, to each claim one-half of the credit allowed on a joint return.

Significant Issues

The federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) provided for favorable tax treatment of premiums and benefits for Qualified Long-Term Care Insurance Policies. HIPAA clarified that such qualified policies would be treated as Accident and Health Insurance under the Internal Revenue Code. If the LTC insurance policy is qualified, per diem benefits are excludible from federal taxable income up to $200.00 per day for 2001, and $210.00 per day for 2002.

Since Medicaid is one of the fastest growing items in state budgets, 35 state legislatures have approved tax incentives for long-term care insurance (Health Insurance Association of America publication-Sep2002).

FISCAL IMPLICATIONS

According to TRD aggregate data on long-term care premiums is not readily available to allow a precise estimate of the proposed measure's impacts therefore the following assumptions were made:

- annual long-term health premiums average $3,000;
- proposed measure would allow a maximum credit of $750 per return; and
- 8,000 taxpayers--about one percent of all New Mexico's personal income taxpayers--claim the credit.

The resulting fiscal impact on the General Fund would total $6 million (i.e., $750 x 8,000). This estimate is consistent with information that about 10 percent of the nation's elderly purchase long-term care insurance, according to the American Council of Life Insurers. Other industry sources say the figure might be as high as 3 percent, however, and is rising due, among other things, to federal tax advantages associated with purchasing long-term care insurance. The figure shown above should therefore be viewed as approximate.

ADMINISTRATIVE IMPLICATIONS

Administrative impacts imposed on TRD would be relatively modest and could be accomplished with existing resources.

OTHER SUBSTANTIVE ISSUES

The HPC provided the following background information:

- SB337 creates an incentive, though a partial tax credit, to purchase long-term care insurance. With a quarter of the cost of the insurance covered by the credit, it may become more affordable to purchase long-term care insurance at a time when families are spending down assets to become Medicaid eligible and when the Medicaid resources of the State of New Mexico are being stretched.

- If the number of individuals with private long-term care insurance grows, the demand for publicly financed care should decline, if other factors do not change.

- The Underwriter's Long Term Care Council notes " the chance of eventually needing some sort of long-term care is 1 in 2, while the cost of long-term care services--$50,000 to $100,000 a year is expected to triple by 2020."

- An American Council of Life Insurance report in May 2000 notes that the Congressional Budget Office had concluded that "private long term care insurance could save the federal government about $40 billion in Medicaid costs."

- Private long-term coverage (LTC) enables policyholders to access long-term care services without having to rely on Medicaid. "In 1995, 68 % of new private LTC purchasers had incomes below $35,000; these same purchasers had average assets valued at $63,000 (HIAA/LifePlans, 1995).

  - Without the protection of long-term care insurance, 13% of these individuals would be likely to spend down to Medicaid eligibility levels if they ever needed long-term care."
  - Private LTC coverage would help them avoid Medicaid, thereby saving public expenditures. On the average for every insured policyholder, Medicaid saves $6,148 (Health Insurance Association of America publication-Mar 2002).

- Having a long-term care insurance policy reduces by 66 % a person's chances of having to spend his or her assets to pay for nursing home care to the point of impoverishment and Medicaid eligibility (Health Insurance Association of America publication-Sep2002).

- SB337 allows more affordable long-term care insurance, which is in the long-term health and fiscal interests of the citizens and the State. A change in tax policy might raise awareness of the risks and costs of long-term care. It could focus attention on the baby boomers' looming retirement and the need to not rely on public funding to maintain their independence in their later years.

SN/yr