

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 74 (Proposed Senate Finance Committee Substitute)

SHORT TITLE: Credit for Long Term Care Insurance

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$millions)				
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
REVENUES					
General Fund		(\$7.98)	(\$8.87)	(\$9.82)	(\$10.89)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					Department of Revenue
EFFECTIVE DATE:	Effective for taxable years beginning on or after January 1, 1999 and expires for taxable years beginning on or after January 1, 2003.				

BILL SUMMARY: The bill provides an individual income tax credit equal to 15% of the premium paid each year on long term care insurance. The credit is nonrefundable and capped at \$350 per policy. The tax credit will sunset in tax year 2002. The Legislative Research Commission will study the effect of the credit on the state's Medicaid costs and report its findings to the 2003 General Assembly.

ASSUMPTIONS AND METHODOLOGY:

SURVEY

Due to unreliable survey data from the National Association of Insurance Commissioners on the number of North Carolinians with long term care insurance, the Life and Health Division of the North Carolina Department of Insurance conducted its own survey in May 1998. The Department surveyed 96 insurance companies that had obtained approval of at least one long-term care insurance product in North Carolina between June 1990 and May 1998. Of those surveyed, 85 provided adequate data within the short time frame of the survey. The survey revealed 64,236 North Carolinians were covered by long-term care insurance in 1997. There were 51,605 renewing insureds and 12,631 new insureds. Included in the new insureds are previous policyholders who had let their policies lapse or had been terminated. The average

premium was \$1,397.64 for new insureds and \$1,209.42 for renewals. The average weighted premium for all insured was \$1,246.43.

POLICY ESTIMATES

Statistically, one year of reliable data is not sufficient information for estimating future growth in the price and the number of long term care policies. Officials with the Life and Health Division in the Department of Insurance recommend calculating both the growth in the number of policies and the growth rate for premiums at 5% a year. The premium amount in the chart below is a weighted average of 1) all current policies beginning in 1997 at \$1,246 and growing 5% per year, and 2) all new policies beginning in 1998 at \$1,398 and growing 5% a year. The tax credit amounts are within the \$350 maximum set in the bill. Tax year 1999 cost will impact the FY 1999-00 General Revenue Fund budget.

	Premium Weighted Average	15% Tax Credit	Number of Policies	Estimated Cost
1997	\$1,246	\$187	64,236	\$12,005,708
1998	\$1,316	\$197	67,448	\$13,314,196
1999	\$1,389	\$208	70,820	\$14,755,387
2000	\$1,466	\$220	74,361	\$16,352,028
2001	\$1,547	\$232	78,079	\$18,118,292
2002	\$1,632	\$245	81,983	\$20,069,493
2003	\$1,721	\$258	86,082	\$22,222,167

NONREFUNDABLE CREDIT

The Senate Committee Substitute for HB 74 provides a nonrefundable income tax credit for long term care insurance. Socio-demographic data on long term care insurance policy holders is needed to determine the number of taxpayers that have a tax liability great enough to use the proposed tax credit. Unfortunately, such data does not exist for North Carolina. However, national data is available from a 1994 Lifeplans, Inc. national survey of long term care insurance purchasers. The Health Insurance Association of America published the survey findings in a publication entitled “Who Buys Long-Term Care Insurance”. The survey found the following about long term care insurance buyers:

average age = 69

39% male / 61% female

62% married / 27% widowed / 12% divorced, never married or separated

income status

less than \$20,000	21%
\$20,000 to \$24,999	16%
\$25,000 to \$34,999	24%
\$35,000 to \$49,999	18%
\$50,000 and over	20%

total liquid assets	
less than \$20,000	18%
\$20,000 to \$49,999	23%
\$50,000 to \$99,999	18%
\$100,000 and over	41%

For this fiscal note, it is assumed that North Carolina long term care insurance purchasers have an income and marital status similar to the national average. In 1999, 62% of the long term care policy holders (43,908) will be married, filing joint tax returns and 38% (26,912) will be filing single returns. The Social Security Administration (SSA) reported that North Carolina retired workers received \$729 per month in social security payments in 1997. For this note it is assumed all retirees earn the same payments. Since the North Carolina individual income tax does not apply to these payments, they are excluded from taxable income in the charts below. Also deducted from income are personal exemptions, standard deductions, and a portion of pension benefits. These adjustments are made to income before the state income tax is applied. As shown below, married couples with incomes below \$35,000 and single filers with incomes below \$20,000 will not have a state income tax liability and thus would not receive the long term care insurance credit.

Married (62%)

Income Status	Less than <u>\$20,000</u>	\$20,000 to <u>\$24,999</u>	\$25,000 to <u>\$34,999</u>	\$35,000 to <u>\$49,999</u>	\$50,000 and <u>over</u>	
(Midpoint of Range)*	\$13,739	\$22,500	\$30,000	\$42,500	\$100,000	
Adjustments to income						
Exclusion of Social Security**	\$13,739	\$17,496	\$17,496	\$17,496	\$17,496	
Standard deduction	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	
Standard deduction elderly	\$600	\$600	\$600	\$600	\$600	
Personal Exemptions (\$2500 per)	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	
Exclusion of retirement benefit.	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	
Taxable Income	\$0	\$0	\$0	\$10,404	\$67,904	
Estimated Income Tax	\$0	\$0	\$0	\$516	\$4,541	
Proposed Credit				208	208	
62% of 70,820 policies	43,908	21%	16%	24%	18%	20%
	9,221	7,025	10,538	7,904	8,782	

* The first quintile is a weighted average based on Census data; the last quintile is an estimate.

** SSA reports the average payment per retired worker in NC in 1997 was \$729/month.

Single (38%)

Income Status	Less than	\$20,000 to	\$25,000 to	\$35,000 to	\$50,000 and
---------------	-----------	-------------	-------------	-------------	--------------

	<u>\$20,000</u>	<u>\$24,999</u>	<u>\$34,999</u>	<u>\$49,999</u>	<u>over</u>	
(Midpoint of Range)*	\$13,739	\$22,500	\$30,000	\$42,500	\$100,000	
Adjustments to income						
Exclusion of Social Security**	\$8,748	\$8,748	\$8,748	\$8,748	\$8,748	
Standard deduction	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	
Standard deduction elderly	\$750	\$750	\$750	\$750	\$750	
Personal Exemptions (\$2500 per)	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	
Exclusion of retirement benefits	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	
Taxable Income	\$0	\$5,502	\$13,002	\$25,502	\$83,002	
Estimated Income Tax	\$0	\$330	\$780	\$1,573	\$5,598	
Proposed Credit		208	208	208	208	
38% of 70,820 policies	26,912	21%	16%	24%	18%	20%
	5,651		4,306	6,459	4,844	5,382

* The first quintile is a weighted average based on Census data; the last quintile is an educated guess.

** SSA reports average payment per retired worker in NC in 1997 was \$729/month

The nonrefundable status of the credit would eliminate 45.8% of the long term care policy holders (32,435 individuals in 1999).

	Premium				
	Weighted	15%	Number of	54.2 %	Estimated
	Average	Tax Credit	Policies	Eligible	Cost
1999	\$1,389	\$208	70,820	38,384	\$7,983,872
2000	\$1,466	\$220	74,361	40,304	\$8,866,880
2001	\$1,547	\$232	78,079	42,319	\$9,818,008
2002	\$1,632	\$245	81,983	44,435	\$10,886,575
2003	\$1,721	\$258	86,082	46,656	\$12,037,248

TECHNICAL CONSIDERATIONS: The 1997 General Assembly conformed the state's income tax laws to changes Congress made in the Internal Revenue Code in 1996. Under federal law, premiums paid on long term care insurance contracts are treated as deductible medical expenses. Under the medical expense itemized deduction, unreimbursed medical expenses may be deducted to the extent that the expenses exceed 7.5% of adjusted gross income. Federal law also allows employers to offer long term care insurance as an untaxed benefit. The taxpayer claiming a deduction for long term care insurance premiums on their federal tax form, will also receive a deduction on their State income tax. In this case, this credit for long term care insurance will offer a limited double benefit.

FISCAL RESEARCH DIVISION (733-4910)

PREPARED BY: Richard Bostic

APPROVED BY:

DATE: October 7, 1998



Signed Copy Located in the NCGA Principal Clerk's Offices