LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6225 **DATE PREPARED:** Nov 12, 1998
BILL NUMBER: SB 7 **BILL AMENDED:**

SUBJECT: Income tax deduction for certain insurance premiums.

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FUNDS AFFECTED: <u>X</u> **GENERAL**
DEDICATED
<u>X</u> **FEDERAL**

IMPACT: State & Local

<u>**Summary of Legislation:**</u> This bill provides an adjusted gross income tax deduction to an individual equal to the premiums paid by the individual for certain insurance policies that cover long term health care expenses. The bill provides that the deduction may be claimed if the premiums are paid for the benefit of the individual, the individual's spouse, or both. The bill also deletes an incorrect cross reference to an Indiana Code section.

<u>**Effective Date:**</u> January 1, 2000.

<u>**Explanation of State Expenditures:**</u> There may be some administrative costs for the Department of Revenue to revise tax forms and instructions to implement this new provision. For the impact on the expenditures in the State’s Medicaid program, see below.

<u>**Explanation of State Revenues:**</u> This bill provides a state income tax deduction to an individual equal to the premiums paid for qualified long term care (LTC) insurance policies (policies approved by the Indiana Long Term Care Insurance Program). The estimated loss in state revenue from the additional income deduction is about $245,000 in FY2001 and $290,000 in FY2002. The annual impact would be expected to grow in future years as more qualified policies are purchased.

These estimated losses in state revenue are understated to the extent that they reflect only policies already in force with current rates of growth. The estimates do not take into account additional policy sales that would occur as a result of the additional incentive to purchase policies provided through the income tax deduction. At projected average premium rates, each additional policy would be expected to reduce state revenues by about $53 for the 2000 tax year.

However, additional insurance policies can also be expected to reduce future Medicaid expenditures for individuals in nursing homes, either because: (1) with a long term care insurance policy, an individual entering a nursing facility would be less likely to ever qualify for Medicaid; or (2) if the individual did qualify for Medicaid, the average daily Medicaid payment would be reduced by an amount equal to the daily insurance benefit (Cohen, Kumar, and Wallack, 1994). However, these reductions in Medicaid Program costs occur over an extended period of time rather than in the first few years. According to these researchers, the average savings that accrue to the Medicaid Program are $3,500 to $6,854 per policyholder over the life of a cohort of policyholders (in 1990 dollars). [In other words, a group of individuals who purchase policies in a particular year and keep those policies until they enter nursing homes can be expected to save the Medicaid Program $3,500 to $6,854 per policyholder over an extended period of time, e.g. 25-30 years.]

Because the revenue loss to the state associated with a tax deduction begins accruing immediately while benefits to the Medicaid program accrue over an extended period of time, the impact to the state is described below on a per policyholder basis rather than in terms of an annual impact. Based on Indiana's projected cost share (38.69%) and inflating to 1998, the benefits to the Medicaid Program would represent a savings of $1,783 to $3,492 in state dollars per policyholder over the life of a cohort of policyholders. For comparison, based on the remaining life expectancy of the 1998 purchasers of qualified LTC insurance policies, the average loss of tax revenue per policyholder over the life of this cohort is about $845.

Explanation of Local Expenditures:

Explanation of Local Revenues: The additional deduction from income for tax purposes would also reduce the tax revenues for those counties that have imposed a county-option income tax (i.e., COIT, CAGIT, CEDIT). The amount of reduced revenues is not determinable at this time.

State Agencies Affected: Family and Social Services Administration; Indiana Department of Revenue.

Local Agencies Affected: Counties and Municipalities.

Information Sources: Mary Ann Hack, Indiana Long Term Care Insurance Program, 232-1034.
Cohen, Marc A., Nanda Kumar, and Stanley S. Wallack, "Long-Term Care Insurance and Medicaid", Health Affairs, Fall 1994, pp 127-139.