

SESSION OF 2010

**SUPPLEMENTAL NOTE ON HOUSE
SUBSTITUTE FOR SENATE BILL NO. 174**

As Recommended by House Committee on
Insurance

Brief*

House Sub. for SB 174 would allow small employers who do not offer a group health insurance plan to contribute, through the establishment of a Health Reimbursement Arrangement (HRA), to the premium of an eligible employee's individually underwritten health insurance plan. Starting with the open enrollment period for the 2010 Plan Year, the bill also would require an administering carrier to offer eligible employees the option of health care coverage through a high deductible health plan and the establishment of a health savings account, which could be offered through a cafeteria plan as authorized under 26 U.S.C. Section 125. The bill would define "carrier" as any insurance company, nonprofit medical and hospital service corporation, nonprofit optometric, dental and pharmacy service corporations, municipal group-funded pool, fraternal benefit society or health maintenance organization.

The bill would require insurers who offer small group health benefit plans to offer a high deductible health plan (HDHP) in conjunction with the establishment of a Health Savings Account (HSA). The existing law governing small employer health benefit plans would be amended by the bill to allow health benefit plans be offered through a cafeteria plan (Section 125) and permit plans to offer coverage through an HDHP/HSA.

The bill also would allow a taxpayer to deduct amounts paid, from their federal adjusted gross income, for health

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

insurance premiums for any individually underwritten privately purchased health insurance policy providing health care coverage for the taxpayer, taxpayer's spouse or dependents.

Background

The House Committee on Insurance recommended the introduction of a substitute bill to incorporate the provisions of HB 2682 (as amended by House Committee on Taxation) as further amended by the House Committee. The House Committee on Insurance amended HB 2682 to delete a provision that would have allowed an eligible employee the option to retain his or her individually underwritten health insurance plan at the time the employee is entitled to enroll in a small employer health benefit plan (group health) [New Section 2, HB 2682, as amended by House Committee on Taxation]. The original bill (SB 174) contained provisions that would have amended a statute governing policy requirements for group life insurance to delete specified participation percentages required for covered employees to place a group life policy in effect.

Representative Arlen Siegfried, Representative Milack Talia, Topeka Independent Business Association, HSA Benefits Consulting, and the National Federation of Independent Business-Kansas testified in support of HB 2682. Proponents stated that under current law an employer cannot contribute to the premium of an employee who has an individually underwritten and privately purchased health insurance policy. They stated that many small businesses do not qualify for a small group plan, thus forcing the employees to either privately purchase an individually underwritten health benefit plan or go uninsured. The proponents believe that allowing small businesses to contribute to individually underwritten and privately purchased health insurance plans would reduce the number of uninsured Kansans.

The Kansas Department of Revenue and Kansas Insurance Department testified in opposition to HB 2682. A

representative from the Department of Revenue contended that the negative \$27.2 million fiscal implication is beyond what the state can afford. The Insurance Department stated that employers who currently provide group insurance for their employees could terminate that group coverage in favor of contributing to the cost of individual coverage for their employees. The Insurance Department further contended that some of those employees who previously had coverage under the group plan would be unable to obtain individual coverage for the amount contributed by the employer, or at any price, depending on their age or health status, or both.

The House Taxation Committee amended HB 2682 by removing the word “individual” from Section 6 Subsection (xxi) and replacing it with “individually underwritten, privately purchased health.”

The fiscal note prepared by the Division of the Budget on HB 2682 indicates that the bill would reduce FY 2011 state general fund revenues by about \$27.2 million. A fiscal note for the substitute bill was not available (the subtraction modification for the amounts paid for health insurance premiums for individually underwritten health insurance policies was not changed by the substitute).