

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 74 (Second Edition) - REVISED

SHORT TITLE: Credit for Long Term Care Insurance

SPONSOR(S): Reps. Cansler, et al

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	(\$13.3)	(\$14.8)	(\$16.4)	(\$18.1)	(\$20.1)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	Department of Revenue				
EFFECTIVE DATE:	Effective for taxable years beginning on or after January 1, 1998 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 capped at \$350 per policy. The tax credit will sunset in tax year 2002.

ASSUMPTIONS AND METHODOLOGY: 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.

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. Calendar year 1998 cost will impact the FY 1998-99 General Revenue Fund budget. Since the credit is nonrefundable, this note assumes all taxpayers will have tax liabilities high enough to use this credit.

	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

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 DATE:

733-4910

PREPARED BY: Richard Bostic

APPROVED BY: Tom Covington

DATE: June 2, 1998



Signed Copy Located in the NCGA Principal Clerk's Offices