

# SENATE BILL REPORT

## SB 5013

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As Reported By Senate Committee On:  
Health & Long-Term Care, February 18, 1997

**Title:** An act relating to a tax exemption for prepayments for health care services provided under Title XVIII (medicare) of the federal social security act.

**Brief Description:** Extending a tax exemption for prepayments for health care services provided under Title XVIII (medicare) of the social security act.

**Sponsors:** Senators West, Wojahn, Deccio, Loveland, Sheldon, Franklin, Rasmussen, Hale, Oke and Roach.

**Brief History:**

**Committee Activity:** Health & Long-Term Care: 1/28/97, 2/18/97 [DPS-WM].  
**Ways & Means:** 3/6/97.

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### SENATE COMMITTEE ON HEALTH & LONG-TERM CARE

**Majority Report:** That Substitute Senate Bill No. 5013 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Deccio, Chair; Wood, Vice Chair; Benton, Fairley, Franklin, Strannigan and Wojahn.

**Staff:** Don Sloma (786-7319)

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Terry Wilson (786-7433)

**Background:** The 1993 Health Services Act imposed a 2 percent tax on premiums and prepayments received by health maintenance organizations (HMOs) and health care service contractors (HCSCs). The funds were deposited in a health services account, along with revenues from tobacco tax increases, hospital tax increases, and some alcohol tax increases. The health services account funds subsidized enrollment in the state's Basic Health Plan, public health system improvements and other health programs. Amounts received by HMOs and HCSCs for Medicare services were exempt from the 2 percent premium and prepayments tax until July 1, 1997.

Unlike the traditional Medicare program where providers who care for Medicare beneficiaries are reimbursed directly by the federal government or through supplemental insurance for covered services, the federal government pays a premium to some medical contractors for all their Medicare benefits. The exemption for Medicare services in the 1993 Health Services Act was to provide equality in the taxation of Medicare revenues and premiums. An expiration was provided for the exemption because it was anticipated that the

state would receive a federal waiver which would allow the taxation of all Medicare revenues and premiums through certified health plans. However, the requirement to provide all medical services through certified health plans was eliminated in 1995.

**Summary of Substitute Bill:** The HMO and HCSC exemption from the 2 percent premium tax for Medicare payments is continued indefinitely.

**Substitute Bill Compared to Original Bill:** The substitute bill contains an emergency clause and takes effect July 1, 1997.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect July 1, 1997.

**Testimony For (Health & Long-Term Care):** The exemption from premium taxes for Medicare premiums will expire without the bill, leaving Medicare recipients who choose managed care plans in an inequitable tax position relative to Medicare recipients who remain in fee for service arrangements. Managed care carriers will pass the premium tax on to these recipients in the form of premium increases for supplemental coverage.

**Testimony Against (Health & Long-Term Care):** None.

**Testified (Health & Long-Term Care):** Ken Bertrand, Group Health (pro); Nance Wildermuth, Pacific Care of WA (pro); Rick Wickman, Blue Cross (pro); Mel Sorensen, Washington Physicians Service (pro).

**Testimony For (Ways & Means):** This merely continues current public policy. These payments have never been taxed. If the bill does not pass, Medicare plans will have to pass the cost on to senior citizens in the form of higher premiums or reduced benefits. A \$100 a year cost increase would be hard on senior citizens.

**Testimony Against (Ways & Means):** None.

**Testified (Ways & Means):** PRO: Bruce Reeves, Senior Citizens' Lobby; Peter Escalante, self; Robert Lynch, AARP; Mimi Haley, Pacific Care of WA; Ken Bertrand, Group Health Cooperative; Mel Sorensen, WA Physicians Service; Rick Wickman, Blue Cross.