

FEB 2 2 2006
WAYS AND MEANS

HOUSE FILE 2476
BY STRUYK and DANDEKAR

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act allowing for small employer association health benefit
2 plans, a small business and school district health care
3 reinsurance program, and a small employer income tax credit
4 for the cost of purchasing health insurance coverage, and
5 providing effective and retroactive applicability dates.

6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

HF 2476

1 DIVISION I
2 ASSOCIATION GROUP HEALTH BENEFIT PLANS
3 Section 1. NEW SECTION. 513B.13A ASSOCIATION GROUP
4 HEALTH BENEFIT PLANS.
5 1. DEFINITIONS.
6 As used in this section, unless the context otherwise
7 requires:
8 a. "Association" means an organization established by a
9 trade, industry, or professional association of employers that
10 has been formed for purposes other than obtaining insurance,
11 has a constitution or bylaws, and has been organized and
12 maintained in good faith for at least ten continuous years
13 prior to July 1, 2006, or is a successor to such an
14 association.
15 b. "Eligible member" means a small employer as defined in
16 section 513B.2.
17 2. PREMIUM RATES -- BENEFITS.
18 a. Notwithstanding section 513B.4, a small employer
19 carrier that offers health insurance coverage in the small
20 group market may offer health benefit plans to eligible
21 members of an association with premium rates determined by the
22 total number of lives insured by the plan, not the number of
23 lives of each eligible member of the association, with the
24 following options:
25 (1) A small employer carrier may offer a single plan to
26 all eligible members of an association.
27 (2) A small employer carrier may offer a plan that
28 provides a basic level of benefits and offers eligible members
29 of an association the option to choose additional coverage
30 pursuant to a schedule of predetermined rates.
31 (3) A small employer carrier may offer a high deductible
32 plan to eligible members of an association who request such a
33 plan.
34 b. A small employer carrier that offers a plan pursuant to
35 this section may require that eligible members of the

1 association participating in the plan continue to participate
2 for up to three years.

3 3. PARTICIPATION.

4 a. An association may enter into one or more agreements
5 with eligible members of the association for the purpose of
6 jointly procuring a group health insurance plan pursuant to
7 this section.

8 b. Participation in a plan offered pursuant to this
9 section by an eligible member of an association shall be
10 voluntary and shall not be made a condition of membership in
11 the association.

12 4. EFFECT OF AGREEMENT. An agreement entered into
13 pursuant to this section shall not be construed to establish a
14 multiple employer welfare arrangement as defined in section 3
15 of the federal Employee Retirement Income Security Act of
16 1974, 29 U.S.C. § 1002, paragraph 40.

17 DIVISION II

18 SMALL BUSINESS AND SCHOOL DISTRICT

19 HEALTH CARE RESINSURANCE PROGRAM

20 Sec. 2. NEW SECTION. 513B.13B SMALL BUSINESS AND SCHOOL
21 DISTRICT HEALTH CARE REINSURANCE PROGRAM.

22 1. DEFINITIONS.

23 As used in this section, unless the context otherwise
24 requires:

25 a. "Fund" means the small business and school district
26 health care reinsurance fund.

27 b. "Qualified carrier" means a carrier, as defined in
28 section 513B.2, or a self-insurance plan for accident and
29 health insurance for a school corporation as provided in
30 section 509A.14, that meets the requirements contained in
31 subsection 4.

32 c. "School district group health insurance plan" means a
33 group health insurance plan that provides health insurance
34 coverage for employees of a school district, including plans
35 authorized under chapter 509A.

1 d. "Small business" means a person actively engaged in
2 business who, on at least fifty percent of the business's
3 working days during the preceding year, employed not less than
4 two and not more than twenty-five full-time equivalent
5 eligible employees. In determining the number of eligible
6 employees, businesses which are affiliated businesses or which
7 are eligible to file a combined tax return for purposes of
8 state taxation are considered one business employer.

9 e. "Small business group health insurance plan" means a
10 group health insurance plan that provides health insurance
11 coverage for employees of a small business.

12 2. REINSURANCE FUND.

13 a. A small business and school district health care
14 reinsurance fund is created as a separate fund in the state
15 treasury under the control of the commissioner of insurance.

16 b. The treasurer of state shall act as custodian of the
17 fund and shall disburse amounts contained in the fund as
18 directed by the commissioner.

19 c. The commissioner shall keep accounts in relation to the
20 appropriation of moneys to the fund and all amounts of
21 approved vouchers for reimbursements to qualified carriers
22 chargeable to the fund.

23 3. REINSURANCE PROGRAM.

24 a. A reinsurance program is created in the insurance
25 division of the department of commerce to administer the fund
26 and to make expenditures from the fund pursuant to this
27 section.

28 b. Moneys in the fund shall be used to reimburse a
29 qualified carrier that offers a small business group health
30 insurance plan or a school district group health insurance
31 plan in which at least eighty-five percent of the eligible
32 employees of the small business or the school district
33 participate, for certain claims paid by the qualified carrier.
34 The amount of reimbursement shall be fifty percent of the cost
35 of each claim that amounts to at least twenty-five thousand

1 dollars but not more than one hundred thousand dollars and
2 that is paid by a qualified carrier under such a plan in a
3 year.

4 c. The commissioner shall submit an annual report not
5 later than January 1 to the governor, the general assembly,
6 and the legislative services agency evaluating the fund and
7 reinsurance program, including but not limited to
8 consideration of the factors contained in subsection 5,
9 paragraph "b", summarizing the status of the fund and
10 reinsurance program, and proposing modifications to or
11 suspension of the operation of the fund and reinsurance
12 program as deemed necessary by the commissioner.

13 4. QUALIFIED CARRIERS.

14 a. In order to qualify for participation in the
15 reinsurance program for the first time, a carrier shall
16 certify to the commissioner that the carrier will immediately
17 reduce its base premium rates or otherwise demonstrate to the
18 commissioner that the carrier will immediately effectively
19 reduce premiums, according to accepted actuarial guidelines
20 adopted by the commissioner by rule under chapter 17A, for all
21 small business group health insurance plans or school district
22 group health insurance plans offered by the carrier for the
23 plan benefit year in an amount that reflects the estimated
24 reimbursement the carrier will receive from participating in
25 the reinsurance program during that plan benefit year, as
26 determined by the commissioner according to accepted actuarial
27 guidelines adopted by rule under chapter 17A.

28 b. In order to qualify for continued participation in the
29 reinsurance program, a carrier shall certify to the
30 commissioner that for the plan benefit year for which
31 reimbursement from the fund is claimed, the carrier reduced
32 its base premium rates or otherwise demonstrate to the
33 commissioner that the carrier effectively reduced premiums,
34 according to accepted actuarial guidelines adopted by the
35 commissioner by rule under chapter 17A, for all small business

1 group health insurance plans or school district group health
2 insurance plans offered by the carrier for that plan benefit
3 year.

4 c. A qualified carrier may claim reimbursement from the
5 fund for the cost of eligible claims annually, by filing, with
6 the commissioner, a claim in a form prescribed by the
7 commissioner by rule.

8 5. MONITORING AND EVALUATION.

9 a. The commissioner shall develop and implement criteria
10 to monitor and evaluate the fund and reinsurance program on an
11 ongoing basis and may make recommendations to the general
12 assembly, including proposed modifications to or suspension of
13 the operation of the fund and reinsurance program.

14 b. In monitoring and evaluating the reinsurance program,
15 the commissioner shall consider such factors as the population
16 whose claims are being reimbursed by the reinsurance program,
17 the number and percentage of qualified carriers electing to
18 utilize the reinsurance program, health care reform measures
19 implemented in the state, premium costs of small business
20 group health insurance or school district group health
21 insurance plans offered by qualified carriers that participate
22 in the reinsurance program compared to carriers that do not,
23 and other factors deemed relevant by the commissioner.

24 DIVISION III

25 SMALL EMPLOYER HEALTH INSURANCE

26 COVERAGE TAX CREDIT

27 Sec. 3. NEW SECTION. 422.11M SMALL EMPLOYER HEALTH
28 INSURANCE COVERAGE TAX CREDIT.

29 1. The taxes imposed under this division, less the credits
30 allowed under sections 422.12 and 422.12B, shall be reduced by
31 a small employer health insurance coverage tax credit. The
32 tax credit may be claimed by a small employer that purchases
33 health insurance coverage, as defined in section 513B.2, for
34 the small employer's employees and their dependents for the
35 first time. The amount of the tax credit equals one hundred

1 percent of the cost to the small employer of purchasing the
2 first year of the health insurance coverage. The tax credit
3 shall be taken over five tax years as provided in subsection
4 2.

5 2. a. A small employer is entitled to claim twenty
6 percent of the amount of the small employer health insurance
7 coverage tax credit for the first tax year for which the
8 health insurance coverage is purchased and twenty percent of
9 the amount of the credit for each consecutive year thereafter
10 that the small employer continues to purchase health insurance
11 coverage for a total of five tax years. However, any credit
12 in excess of the tax liability for the tax year is
13 nonrefundable but may be credited to the tax liability for the
14 following seven years or until depleted, whichever is the
15 earlier.

16 b. If a small employer elects to take the small employer
17 health insurance coverage tax credit, the small employer shall
18 reduce, by the amount used in the computation of the credit,
19 the deduction for Iowa income tax purposes of the cost of
20 health insurance premiums paid by the employer during the tax
21 year in which the tax credit is computed, that is deductible
22 for federal tax purposes.

23 c. If a small employer that has claimed the small employer
24 health insurance coverage tax credit is merged with another
25 business or is divided into separate businesses, any resulting
26 business which is at least fifteen percent directly or
27 indirectly owned or controlled by the owners or controllers of
28 the original small employer, is entitled to claim any amounts
29 of the small employer health insurance coverage credit that
30 remain so long as the resulting business continues to purchase
31 the health insurance coverage during each tax year for which
32 the credit is claimed.

33 3. An individual may claim a small employer health
34 insurance coverage tax credit allowed a partnership, limited
35 liability company, S corporation, estate, or trust electing to

1 have the income taxed directly to the individual. The amount
2 claimed by the individual shall be based on the pro rata share
3 of the individual's earnings of the partnership, limited
4 liability company, S corporation, estate, or trust.

5 4. a. For the purposes of this section "small employer"
6 means a person actively engaged in business, to which all of
7 the following apply:

8 (1) On at least fifty percent of the employer's working
9 days during the preceding year, employed not less than two and
10 not more than twenty full-time equivalent eligible employees.
11 In determining the number of eligible employees, companies
12 which are affiliated companies or which are eligible to file a
13 combined tax return for purposes of state taxation are
14 considered one employer.

15 (2) The annualized, average hourly wage paid by the
16 employer is equal to or greater than one hundred percent of
17 the average county wage.

18 b. For purposes of this definition, "average county wage"
19 means the annualized, average hourly wage calculated by the
20 department of workforce development which equals the least of
21 the following:

22 (1) The annualized, average hourly wage paid by all
23 businesses in the entire county.

24 (2) The annualized, average hourly wage paid by all
25 businesses in the county located outside the largest city of
26 the county.

27 (3) The annualized, average hourly wage paid by all
28 businesses other than the largest employer in the entire
29 county.

30 Sec. 4. Section 422.33, Code Supplement 2005, is amended
31 by adding the following new subsection:

32 NEW SUBSECTION. 20. a. The taxes imposed under this
33 division shall be reduced by a small employer health insurance
34 coverage tax credit. The tax credit may be claimed by a small
35 employer that purchases health insurance coverage, as defined

1 in section 513B.2, for the small employer's employees and
2 their dependents for the first time. The amount of the tax
3 credit equals one hundred percent of the cost to the small
4 employer of purchasing the first year of such health insurance
5 coverage. The credit shall be taken over five tax years as
6 provided in paragraph "b".

7 b. (1) A small employer is entitled to claim twenty
8 percent of the amount of the small employer health insurance
9 coverage tax credit for the first tax year for which the
10 health insurance coverage is purchased and twenty percent of
11 the amount of the credit for each consecutive year thereafter
12 that the small employer continues to purchase the health
13 insurance coverage for a total of five tax years. However,
14 any credit in excess of the tax liability for the tax year is
15 nonrefundable but may be credited to the tax liability for the
16 following seven years or until depleted, whichever is the
17 earlier.

18 (2) If a small employer elects to take the small employer
19 health insurance coverage tax credit, the small employer shall
20 reduce, by the amount used in the computation of the credit,
21 the deduction for Iowa income tax purposes of the cost of
22 health insurance premiums paid by the employer during the tax
23 year in which the tax credit is computed, that is deductible
24 for federal tax purposes.

25 (3) If a small employer that has claimed the small
26 employer health insurance coverage tax credit is merged with
27 another business or is divided into separate businesses, any
28 resulting business which is at least fifteen percent directly
29 or indirectly owned or controlled by the owners or controllers
30 of the original small employer, is entitled to claim any
31 amounts of the small employer health insurance coverage credit
32 that remain so long as the resulting business continues to
33 purchase the health insurance coverage during each tax year
34 for which the credit is claimed.

35 c. (1) For the purposes of this subsection "small

1 employer" means a person actively engaged in business, to
2 which all of the following apply:

3 (a) On at least fifty percent of the employer's working
4 days during the preceding year, employed not less than two and
5 not more than twenty full-time equivalent eligible employees.
6 In determining the number of eligible employees, companies
7 which are affiliated companies or which are eligible to file a
8 combined tax return for purposes of state taxation are
9 considered one employer.

10 (b) The annualized, average hourly wage paid by the
11 employer is equal to or greater than one hundred percent of
12 the average county wage.

13 (2) For purposes of this definition, "average county wage"
14 means the annualized, average hourly wage calculated by the
15 department of workforce development which equals the least of
16 the following:

17 (a) The annualized, average hourly wage paid by all
18 businesses in the entire county.

19 (b) The annualized, average hourly wage paid by all
20 businesses in the county located outside the largest city of
21 the county.

22 (c) The annualized, average hourly wage paid by all
23 businesses other than the largest employer in the entire
24 county.

25 Sec. 5. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.
26 This division of this Act, being deemed of immediate
27 importance, takes effect upon enactment and applies
28 retroactively to January 1, 2006, for tax years beginning on
29 or after that date.

30

EXPLANATION

31 This bill authorizes small employer association health
32 benefit plans, a small business and school district health
33 care reinsurance program, and a small employer income tax
34 credit for the cost of purchasing health insurance coverage,
35 and provides effective and retroactive applicability dates for

1 the tax credit.

2 DIVISION I -- ASSOCIATION GROUP HEALTH BENEFIT PLANS. The
3 bill provides that notwithstanding the premium rate
4 restrictions contained in Code section 513B.4, a small
5 employer carrier that offers health insurance coverage in the
6 small group market may offer health benefit plans to eligible
7 members of an association with premium rates determined by the
8 total number of lives insured by the plan, not the number of
9 lives of each eligible member of the association.

10 The bill allows such a small employer carrier to offer a
11 single plan, a basic plan with options to purchase additional
12 coverage pursuant to a schedule of predetermined rates, or a
13 high deductible to eligible members of an association. A
14 small employer carrier that offers such a plan may require
15 that participating eligible members of an association continue
16 to participate for up to three years.

17 An association may enter into agreements with eligible
18 members of the association for the purpose of procuring a
19 group health insurance plan but such an agreement shall not be
20 construed to establish a multiple employer welfare arrangement
21 as defined in the federal Employee Retirement Income Security
22 Act of 1974 (ERISA). Participation in an association health
23 benefit plan is voluntary and cannot be made a condition of
24 membership in an association.

25 For purposes of the bill, an "association" is an
26 organization established by a trade, industry, or professional
27 association of employers that has been formed for purposes
28 other than obtaining insurance, has a constitution or bylaws,
29 and has been organized and maintained in good faith for at
30 least 10 continuous years prior to July 1, 2006, or is a
31 successor to such an association. An "eligible member" of an
32 association is a small employer who is actively engaged in
33 business and on at least 50 percent of the employer's working
34 days during the preceding year, employed not less than two and
35 not more than 50 full-time equivalent eligible employees.

1 DIVISION II -- SMALL BUSINESS AND SCHOOL DISTRICT HEALTH
2 CARE REINSURANCE PROGRAM. The bill creates a small business
3 and school district health care reinsurance program for health
4 care claims made under small business or school district group
5 health insurance plans.

6 The bill provides reimbursement of certain claims paid by
7 qualified insurance carriers under group health insurance
8 plans that provide health insurance to a small business, which
9 employs two to 25 full-time equivalent employees, or to a
10 school district.

11 The reinsurance fund is created as a separate fund in the
12 state treasury under the control of the commissioner of
13 insurance.

14 The reinsurance program is created in the insurance
15 division of the department of commerce to administer the
16 reinsurance fund and to make expenditures from the fund.

17 The reinsurance program is required to reimburse a
18 qualified carrier that offers a small business or school
19 district group health insurance plan, in which at least 85
20 percent of the eligible employees of the small business or the
21 school district participate, for certain claims paid. The
22 reimbursement amount is 50 percent of the cost of each claim,
23 of at least \$25,000 but not more than \$100,000, which is paid
24 by a qualified carrier under such a plan each year.

25 For the purposes of the bill, a "qualified carrier" means a
26 carrier under Code section 513B.2, which is an entity subject
27 to the insurance laws and regulations of this state, or
28 subject to the jurisdiction of the commissioner, that
29 contracts or offers to contract to provide, deliver, arrange
30 for, pay for, or reimburse any of the costs of health care
31 services, including an insurance company offering sickness and
32 accident plans, a health maintenance organization, a nonprofit
33 health service corporation, or any other entity providing a
34 plan of health insurance, health benefits, or health services,
35 or means a self-insurance plan for accident and health

1 insurance for a school corporation as provided in section
2 509A.14, that meets the requirements of the bill.

3 In order to qualify for participation in the reinsurance
4 program for the first time, a carrier is required to certify
5 to the commissioner that the carrier will immediately reduce
6 its base premium rates or otherwise demonstrate to the
7 commissioner that the carrier will immediately effectively
8 reduce premiums, according to accepted actuarial guidelines
9 adopted by the commissioner by rule under Code chapter 17A,
10 for all small business or school district group health
11 insurance plans offered by the carrier for the plan benefit
12 year in an amount that reflects the estimated reimbursement
13 the carrier will receive from participating in the reinsurance
14 program during that plan benefit year, as determined by the
15 commissioner according to accepted actuarial guidelines
16 adopted by rule under Code chapter 17A.

17 In order to qualify for continued participation in the
18 reinsurance program, a carrier shall certify to the
19 commissioner that for the plan benefit year for which
20 reimbursement from the fund is claimed, the carrier reduced
21 its base premium rates or otherwise demonstrate to the
22 commissioner that the carrier effectively reduced premiums,
23 according to accepted actuarial guidelines adopted by the
24 commissioner by rule under Code chapter 17A, for all small
25 business or school district group health insurance plans
26 offered by the carrier for that plan benefit year.

27 The commissioner is required to develop and implement
28 criteria to monitor and evaluate the reinsurance program and
29 may make recommendations to the general assembly, including
30 proposed modifications to or suspension of the operation of
31 the reinsurance fund and program. The criteria shall include
32 consideration of factors such as the population whose claims
33 are being reimbursed by the program, the number and percentage
34 of qualified carriers electing to utilize the program, health
35 care reform measures implemented in the state, premium costs

1 of small business or school district group health insurance
2 plans offered by qualified carriers that participate in the
3 program compared to carriers that do not, and other factors
4 deemed relevant by the commissioner.

5 The commissioner is required to submit an annual report by
6 January 1 to the governor, general assembly, and legislative
7 services agency evaluating the reinsurance fund and program,
8 including but not limited to consideration of the factors
9 involved in developing and implementing the reinsurance
10 program and fund, summarizing the status of the program and
11 fund, and proposing modifications to or suspension of the
12 operation of the fund and program as deemed necessary by the
13 commissioner.

14 DIVISION III -- SMALL EMPLOYER HEALTH INSURANCE COVERAGE
15 TAX CREDIT. The bill provides an individual and corporate
16 income tax credit for a small employer that purchases health
17 insurance coverage for its employees and their dependents for
18 the first time.

19 A small employer is defined as a person actively engaged in
20 business who on at least 50 percent of the employer's working
21 days during the preceding year, employed not less than two and
22 not more than 20 full-time equivalent eligible employees and
23 paid those employees an annualized, average hourly wage that
24 is equal to or greater than 100 percent of the average county
25 wage. "Average county wage" is defined to mean the
26 annualized, average hourly wage, calculated by the department
27 of workforce development, which equals the least of the
28 annualized, average hourly wage paid by all businesses in the
29 entire county, the annualized, average hourly wage paid by all
30 businesses in the county located outside the largest city of
31 the county, or the annualized, average hourly wage paid by all
32 businesses other than the largest employer in the county.

33 "Health insurance coverage" is defined to mean benefits
34 consisting of health care provided directly through insurance
35 or reimbursement, or otherwise, and including items and

1 services paid for as health care under a hospital or health
2 service policy or certificate, hospital or health service plan
3 contract, or health maintenance organization contract offered
4 by a carrier.

5 The amount of the credit equals 100 percent of the first
6 year's cost to a small employer of purchasing health insurance
7 coverage for its employees and their dependents for the first
8 time. A small employer is entitled to claim 20 percent of the
9 amount of the small employer health insurance coverage credit
10 for the first tax year for which the health insurance coverage
11 is purchased and 20 percent of the amount of the credit for
12 each consecutive year thereafter that the small employer
13 continues to purchase the health insurance coverage for a
14 total of five tax years.

15 If a small employer elects to take the small employer
16 health insurance coverage tax credit, the small employer is
17 required to reduce, by the amount used in the computation of
18 the credit, the deduction for Iowa income tax purposes of the
19 cost of health insurance premiums paid by the employer during
20 the tax year in which the tax credit is computed, that is
21 deductible for federal tax purposes.

22 This division of the bill takes effect upon enactment and
23 applies retroactively to January 1, 2006, for tax years
24 beginning on or after that date.

25
26
27
28
29
30
31
32
33
34
35