MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

ROLL NUMBER

DESCRIPTION

2296

2001 SENATE FINANCE AND TAXATION

SB 2296

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2296

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date 1/29/01

Tape Number	Side A	Side B	Meter #
1	x		9.4-35.1
1/31/01 - 2	x		41.7-52.2
Committee Clerk Signature	Lynelle M. Kraft		

Minutes:

Senator Urlacher: Opened the hearing on SB 2296, relating to an income tax credit for prescribed drugs and insulin.

Senator Carolyn Nelson: Co-sponsored the bill, testified in support. Written testimony attached.

Senator David O'Connell: Co-sponsored the bill, testified in support. Talked about the problem with people going to Canada.

Representative Audrey Cleary: Co-sponsored the bill, testified in support. This bill is a good place to start.

Representative Merle Boucher: Co-sponsored the bill, testified in support. Written testimony attached.

Senator Wardner: How does Medicare take care of the costs?

Representative Merle Boucher: It does not cover them.

Senator Wardner: Would we subtract the amount off the federal income tax liability or would we subtract it off the state tax liability?

Representative Merle Boucher: First our state income liability.

Senator Stenehjem: Asks about the fiscal note and where the $10 million is going to come from.

Representative Merle Boucher: The $10 million is a guess and probably a worse-case scenario. As to where the money comes from, it's a matter of prioritizing.

Norm Stuhmiller: On behalf of senior citizens, testified in support. Explains that Medicare does not cover prescription drugs and feels seniors need help. Meter number 30.4-34.7.

Senator Urlacher: Closed the hearing. Action delayed.

Discussion held 1/31/01. Meter number 41.7-52.2.

COMMITTEE ACTION 1/31/01

Motion made by Senator Christmann for a DO NOT PASS, Seconded by Senator Wardner. Vote was 4 yeas, 2 nays, 0 absent and not voting. Bill carrier was Senator Wardner.

FISCAL NOTE

Requested by Legislative Council
01/23/2001

Bill/Resolution No.: SB 2296

Amendment to:

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			($10,300,000)			
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

SB 2296 allows a tax credit on the short and long individual income tax forms for perscription drugs and insulin purchases made by persons sixty-five and older that exceed $500 per person per year.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, SB 2296 is expected to reduce state general fund revenues by -$5.15 million per year.

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	**Agency:**	Tax Department
Phone Number:	328-3402	**Date Prepared:**	01/26/2001

Date: 1/31/01
Roll Call Vote #:

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2076

Senate Finance and Taxation Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Christmann Seconded By Wardner

Senators	Yes	No	Senators	Yes	No
Senator Urlacher-Chairman	✓				
Senator Wardner-Vice Chairman	✓				
Senator Christmann	✓				
Senator Stenehjem	✓				
Senator Kroeplin		✓			
Senator Nichols		✓			

Total (Yes) 4 No 2

Absent 0

Floor Assignment Wardner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2296: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **DO NOT PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2296 was placed on the Eleventh order on the calendar.

2001 TESTIMONY

SB 2296

NORTH DAKOTA SENATE

STATE CAPITOL
600 EAST BOULEVARD
BISMARCK, ND 58505-0360

...tor Carolyn Nelson
...trict 21
5 College Street
...o, ND 58102-3433

COMMITTEES:
Judiciary
Government and Veterans Affairs

SB 2296

Last summer, I heard from a high school classmate who retired from the military and chose to live in Florida. Why? They don't tax his retirement income there. He and his wife would like to have moved back here but where is the incentive? That got me thinking about other incentives - large and small. We want people to move back here but we don't try very hard. And, we don't appreciate those who stayed here during the highs and lows of North Dakota's history. I look at SB 2296 as a little thank you for those who stayed, worked and paid taxes on all their income all these years. Most of them got no incentives to start businesses or send their kids to school, but they stayed.

You all got "Firstline CSG Midwest" in January. The whole paper was about pharmacy assistance programs in the Midwest. It is not just North Dakota's problem. The first article states that "recent studies have pinpointed expenditures for prescription drugs as the fastest-growing piece of the health care spending pie". Remember that there is no Medicare benefit for prescription drugs. 1 in 5 elderly people take at least 5 prescription medications a day. In rural America, Medicare beneficiaries are 50% less likely to have prescription drug coverage. Before you vote, take time to read this legislative brief.

Perhaps you also received a blue slip from Blue Cross/Blue Shield last week telling you how much you spent on medications during the last quarter of 2000. Did you look at the amount in the other column that told you how much insurance paid?

Imagine that you didn't have insurance and were on limited income, could you have afforded that medication. It wasn't frivolous, it was necessary expense. How can we help? SB 2296 is an attempt to relieve the burden.

The average senior citizen taxpayer pays about $650 in income taxes. That same citizen averages $738 in non-reimbursed prescription costs. This bill suggests that we assume the senior can manage $500 of those costs. The tax credit would be $238 (738-500). Therefore, the tax would be reduced to $412. It may not seem like much, but to the senior on limited income, it's much appreciated. It is a credit, not a refund. Therefore, if the tax is less than $250, that's all the credit they get.

The Tax Department is guessing about the fiscal note; it's not an actuarial study to identify all seniors, their medical needs and their taxes.

Where are the other states finding the money to fund their programs? This is a health issue. Indiana used $20 of their tobacco settlement money; Iowa started a drug-purchasing cooperative with a $1 million grant in federal funds; Michigan used $30 million of their tobacco money; Illinois used $35 million of their tobacco money. Yes, we too, can use our tobacco money – a good investment for our citizens.

Thank you for your consideration of SB 2296.

Firstline Midwest

Volume 7, Number 1, January 2001

Seniors feel pinch from rising drug costs

by Jacqueline M. Kocinski

Most Americans would agree that this nation offers the very best in health care services. The problem is that such care comes at a price, one that prohibits millions of citizens from accessing it.

With health care costs on the rise — in the Midwest they are increasing anywhere from 10 percent to 30 percent annually — recent studies have pinpointed expenditures for prescription drugs as the fastest-growing piece of the health care spending pie. The journal *Health Affairs* reports that spending on pharmaceuticals was responsible for 44 percent of the increase in health care costs in 1999.

The elderly typically have more medical needs; as a result, they consume one-third of all prescription drugs (despite representing just 12 percent of the population). Because Medicare provides no prescription drug benefit, many uninsured seniors are facing a serious health crisis, the significance of which has not escaped the attention of state and federal lawmakers.

Policymakers in Washington, D.C., have mulled over a number of options to tackle the problems related to prescription drug pricing and coverage. A program to allow the import of low-cost prescription drugs was approved by Congress last fall. By the end of the year, however, the program was killed because U.S. Health and Human Services Department officials could not, as stipulated in the legislation, demonstrate that it would "pose no additional risk to the public's health and safety" and "result in a significant reduction in the cost of covered products."

Some Americans who lack drug coverage have crossed the borders into Canada and Mexico, where identical prescriptions can run 30 percent to 70 percent less than in the United States.

Most attention at the federal level has been paid to options for adding a prescription drug benefit to Medicare. In his campaign for the presidency, George W. Bush proposed a plan that would initially provide block grants to the states and four years later follow a private insurance model in which seniors would choose among health plans with varying benefits. Critics, though, charge that such an income-based program would still leave at least 25 million Medicare beneficiaries without meaningful assistance.

While debate has intensified at the federal level, action has picked up in the states. Several in this region now have plans in place to help seniors pay for prescription drugs.

Because Medicare provides no prescription drug benefit, many uninsured seniors are facing a serious health crisis, the significance of which has not escaped the attention of state and federal lawmakers.

Paying off?

Legalized gambling continues to be a hot-button issue, as several recent developments in the Midwest prove.

Midwest

ate pharmacy assistance programs help elderly in the Midwest

Over the past eight years, elderly Americans have seen their prescription drug costs double. Over the next decade, their drug expenditures are expected to continue to rise at double-digit rates. As the medicines that are vital to seniors' health become increasingly unaffordable, state lawmakers are stepping in to provide many with the coverage the federal government does not.

Over half the states now have some sort of pharmacy assistance program in place, with a few having been developed as long as 25 years ago. Most target the elderly, though a number also offer coverage to people h disabilities. Restrictions on eligibility and benefits intended to contain costs differ across the states, but cost-sharing is a typical feature of most plans.

Over the last two years, a number of states — many following the first tobacco settlement disbursements — looked to develop a pharmacy assistance program or revamp one already in existance. The plans generally fall under three categories: subsidies, bulk-purchasing arrangements and price controls.

In the Midwest, the region with the largest proportion of older seniors, legislators are acutely aware of the impact that rising drug costs have on their older constituents. The annual pharmacy bill of a typical senior can run $2,000 or more, and one-third of Medicare recipients do not have access to discounted drugs.

Seniors in rural areas fare even worse. Rural beneficiaries, who represent one-quarter of the Medicare population nationwide, have lower incomes, more limited access to pharmacies and pay more for prescription drugs than their urban counterparts.

Following a series of town meetings held across the state, the Indiana General Assembly voted last year to spend $20 million of its share of the tobacco settlement on a prescription drug program for seniors, and an advisory committee was then formed to help structure a plan. Gov. Frank O'Bannon announced details of "HoosierRx" in October 2000.

To provide quick help to the state's seniors, refunds are being given for drugs purchased since Oct. 1, 2000. Indiana residents over age 65 with no other prescription drug coverage and incomes below 135 percent of the federal poverty level will be able to submit quarterly refund certificates to receive back half of their drug costs, up to $1,000 a year.

A second phase of the program is still under development, but it will aim to lower prices at the time elderly residents have their prescriptions filled. Participants may pay a lower price, either through a discount or a co-payment.

QUICK FACTS

[illegible] take at least five prescription medicines.

[illegible] lack adequate insurance coverage.

[illegible] are 50 percent less likely [illegible] Medicare recipients [illegible] middle income.

[illegible] they are going to pay higher [illegible] over prescriptions for low-income

[illegible] drugs used by U.S. seniors — who consume [illegible] of all prescriptions — has been increasing at a rate that has outpaced inflation nearly two to one for the past six years.

More than 50 percent of the growth in spending for prescription drugs is for pharmaceuticals, which have come on the market since 1996.

Sources: Center for Policy Alternatives, National Economic Council/Domestic Policy Council, Public Agenda, Families USA, National Center for Policy Analysis

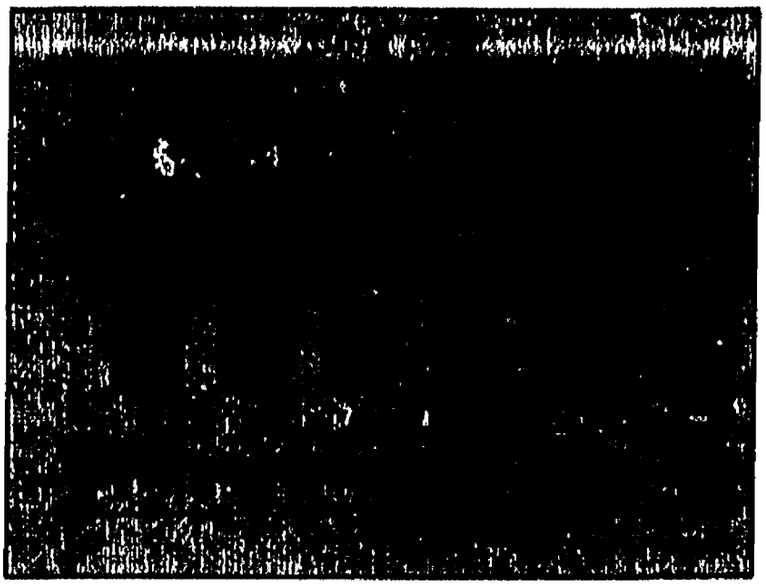
In Iowa, a Prescription Drug Work Group is hammering out the details of a drug purchasing cooperative plan. U.S. Sen. Tom Harkin secured $1 million in federal start-up funds for a demonstration project in the state. Individuals, as well as local pharmacies, will be eligible to join the co-op. Participants may also include the self-insured, employers and insurers.

Serving as a buyers' club, the plan would allow Iowa seniors to purchase pharmaceuticals at a discount rate for a small annual fee, perhaps between $15 and $30. The state plans to negotiate volume-purchasing discounts either directly or through a private sector contractor.

Among the working group's goals is for the ultimate design of the program to be a public-private partnership that will use no state funds and could act independently of the governemnt at some point. The program is expected to begin operating this spring.

In Michigan, $30 million of that state's portion of the tobacco settlement was appropriated to establish the Elder Prescription Insurance Coverage (EPIC) program. The total cost of the plan is expected to run close to $56 million. The additional funds will come from the repeal of an existing senior drug tax credit and the Emergency Pharmaceutical Program for Seniors.

Implementation of EPIC is expected to begin early this year, with the program covering those age 65 and over with incomes at or below 200 percent of the federal poverty level. Those under 100 percent will pay no premium.



For all others, insurance premiums will be based on income, not to exceed 5 percent of household income. An emergency provision of the plan will cover seniors who require assistance for just a month or two.

A pharmaceutical assistance program covering the elderly and disabled was first implemented in **Illinois** in 1985. Last year, legislators in Springfield raised the income eligibility for coverage and lowered deductibles and co-payments. The expansion is being funded by a $35 million appropriation of tobacco settlement dollars.

It remains to be seen whether and how any action taken by the new administration in Washington, D.C., will impact these Midwestern pharmacy assistance programs.

Even if a federal plan is approved, how it is structured will determine how many seniors receive help meeting prescription drug costs. Researchers at The Commonwealth Fund — a nonpartisan health and social policy research foundation — contend that even if a prescription drug benefit is added to Medicare, most people would not qualify for government coverage if annual income alone was used to determine eligibility.

However, eligibility rules that include elderly without continuous and stable coverage, those with high drug expenditures and seniors with multiple chronic conditions would make nearly 90 percent of beneficiaries eligible for coverage, The Commonwealth Fund believes.

Until such a plan becomes the law nationally, the affordability of prescription drugs will continue to receive considerable attention at the state level.

Jacqueline M. Kocinski is a policy analyst with CSG Midwest.

Testimony for Senate Bill No. 2296

Senate Finance and Tax Committee

Senator Herb Urlacher, Chairman

Monday, January 29, 2001

Chairman Urlacher and members of the Senate Finance and Tax Committee. For the record I am Representative Merle Boucher a member of the House of Representatives from District Nine.

Senate Bill No. 2296 would allow an individual age sixty-five or older to claim a tax credit of up to $250.00 per individual for costs of prescribed drugs and insulin not covered by insurance in excess of $500.00 by the individual. The credit is allowed as a deduction for prescribed drugs and insulin - allowed as a deduction under section 213 of the IRS code but not allowed on the federal return by reason of the federal medical deduction limitation for expenses incurred by the taxpayer(s).

One of the most burdensome costs that many individuals age sixty-five or older incur in today's world is the expense of prescription drugs and insulin. It is a well known fact that the costs of prescription drugs and insulin has risen much faster than typical prices on the overall consumer price index. Health care experts and consumer advocates warn us that it appears that this trend of increasing costs will be with us for a long period of time. The high costs of prescription drugs and insulin is a major drain on a number of individuals', sixty-five and older, disposable income.

Senate Bill No. 2296 attempts to alleviate some of this extraordinary financial burden by giving the taxpayer a tax credit. A tax credit is not a form of public assistance or a so called

social entitlement. You must remember that in order to benefit from a tax credit, the filer must have had both a federal and a state tax obligation. This piece of legislation is a fair and an equitable allowance that benefits moderate and middle income individuals over age sixty-five..

I ask that you give serious consideration to the contents of Senate Bill No. 2296. Please give SB No. 2296 and a number of fellow North Dakotans your favorable support and give it a due pass recommendation.

Respectfully submitted by:

Representative Merle Boucher

Statistics on Prescription Drug Tax Credit

HB 1382/ SB 2296

Average tax paid by North Dakotans: $749/year (ND Tax Dept.)

North Dakotans spend $100-160 million(ND Tax Dept.) of their own money on prescription drugs.

The average American pays $258.84 per year* of their own money on prescription drugs
Americans over 65 pay $564.40 per year* out of pocket for prescription drugs.

Americans over 75 pay $605.49 per year* of their own money for prescription drugs.

With the proposed bill in the House(1382) a tax credit would be available to anyone who spends over $500 in a year and the credit would not exceed $1000 per year. In the Senate (2296) the credit would be available to individuals over 65.

*according to the US Bureau of Labor Statistics