

LEG REG REVIEW

2010, 5th Issue February 22

LEG REG REVIEW is a periodic newsletter produced by PHILLIPS ASSOCIATES, a professional lobbying and consultant firm located near the State Capitol. It contains news on the legislative and regulatory scene in Pennsylvania that may be of interest to the Insurance and Business Communities. It is a free member benefit for those who are members of the Pennsylvania Association of Health Underwriters (PAHU) or Manufacturers Association of South Central PA (MASCAPA). Subscription information may be obtained by contacting PHILLIPS ASSOCIATES at 717/728-1217 FAX 717/728-1164 or e-mail to xenobun@aol.com. Please email jtrout2792@aol.com supplying both your name and e-mail address if you wish to be removed from this list.

BUDGET TO TAX PROFESSIONAL SERVICES

Governor Ed Rendell's final budget presentation to the General Assembly argued that PA is in for some tough financial times because of lower than expected tax revenues, an end to the federal Stimulus money after the new fiscal year, and a looming pension crisis. Revenues for this fiscal year ending June 30, 2009 are now projected as being \$525 million below what is needed. To counter the end of Stimulus money, the Governor seeks to create a special fund called Stimulus Transition Reserve Fund which cannot be accessed until FY 2011-12. Funding from the following sources would help make up for the tax revenue shortfall:

- Taxing smokeless tobacco (\$42 million)
- Taxing extraction of natural gas from Marcellus Shale (161 million)

Funding would also come from a major change in the state's sales tax system. Exemptions for food, clothing and medicine would continue as would exemptions for manufacturing and agriculture. Other now exempt items would be taxable. Rendell estimates that \$532 million would be raised by taxing these heretofore exempt categories. Following are some of the 74 now exempt items that would be taxed if the General Assembly agrees.

Legal services/attorney fees...advertising/PR firm services...financial institution fees...accountant fees (presumably tax preparation too)...newspapers...bad debts...textbooks...warehouse storage...residential telephones...water and sewer services...waste management and remediation services...vending machines

Two other taxes would generate revenues. Ending the one-percent discount the state gives for early payment of sales taxes would raise \$74 million and closing the so-called Delaware Loophole (forcing businesses domiciled in Delaware to pay taxes on the proportion of their earnings made in PA), raising \$66 million. On the plus side for business, the corporate income tax rate might also decline from 9.99% to 8.99%.

Some areas in the Budget would see an increase. Education would receive \$448 million more for pre-K-12 education, an increase of 4.9%; basic education would receive a 6.4% increase of \$355 million. Corrections would get an additional \$137 million (7.7% increase). Medicaid (public assistance) which now supplies taxpayer-subsidized health care to 13% of PA's adult population would see \$251 million more while CHIP would add 10,300 more uninsured children to its rolls.

The welfare expansion assumes passage of Medicaid legislation by Congress just as funding infrastructure repairs for bridges, roads and mass transit (\$537 million) anticipates Obama Administration approval of Pennsylvania's request to tax I-80. That proposal has been shot down previously by the US Department of Transportation and is vigorously resisted by chambers of commerce and businesses along I-80 that see increases in operating costs from tolling the Interstate.

POLITICAL NOTES...Senator Robert Mellow (D-Lackawanna) has announced his plan to retire at the end of this session. He is currently the Senate Democratic Leader...**Insurance broker Daryl Schafer** is running for the Republican nomination to run against incumbent Rep. Mike Hanna. Hanna currently chairs the House Agriculture & Rural Affairs Committee.

HOUSE ACTIONS ON INSURANCE ISSUES

The PA House Appropriations Committee has taken action on a number of important insurance issues, blending them into one bill. Senate Bill 237 (Corman-R-Centre) started out as legislation requiring suitability analysis be done when selling an annuity product. It was amended to include language protecting the confidentiality of internal insurer documents, ensuring Pennsylvania compliance with newly passed federal legislation (language from HB 1112 and HB 1593), and language regarding the Excess & Surplus lines market (from HB 1415). This is now ready to be voted on by the full House in March. NOTE: Text of SB 237 is available from www.legis.state.pa.us.

The House Appropriations Committee also moved:

- HB 2041 (DeLuca-D-Allegheny) which sets disclosure standards for towing. Although supported by the Insurance Federation, AAA, and the Attorney General, the bill was opposed by the PA Towing Association and a coalition calling itself PA Collision Trade Guild. The Guild took the position that HB 2041 would undermine consumers' rights by allowing insurers to move the car at whim (something denied by insurers which maintain that some towing concerns restrict access in order to exact additional storage fees.
- HB 1251 (Costa-D-Allegheny) sets up a grievance and complaint review procedure for consumers having long-term care insurance plans.

UPCOMING...March 1 starts the conversion of insurance licenses to month of birth instead of two years from date of issue. The Insurance Department notified agent groups on February 19 that routine transactions should be done before then to avoid delay in access problems as they re-tool the system.

http://www.portal.state.pa.us/portal/server.pt/community/services_for_licensees/5233/notices_and_information/623217

REGULATORY UPDATE...

- Tuscarora Wayne has formally requested Insurance Department approval to acquire Lebanon Mutual.
- Insurance agencies writing health insurance might wish to take note of a new HIPAA rule prompted by the ARRA (Stimulus). Specifically, it requires amendments to Business Associate agreements between agency and insurer and stipulates that a policy must address what happens if there is a breach of privacy. The implementation deadline is February 27. This provision is also referred to as the HITECH Business Associate requirement.

BUDGET HEARING SCHEDULE Update

Refer to www.legis.state.pa.us and go to each chamber tab (House, Senate) for full committee schedule.

	<u>House</u>	<u>Senate</u>
Aging	2/24	2/25
Agriculture	2/22	done
Community & Economic Development	done	2/22
Education	2/23	3/2
Environmental Protection	2/22	3/1
Insurance Department	2/24	done
Public Welfare	2/24	3/3