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TO: Members of the Senate Budget and Appropriations Committee and the
Assembly Budget Committee

FROM: Paul Tyahla, Vice President, Government Affairs, CIANJ

DATE: Monday, June 22, 2009

SUBJECT: CIANJ Opposition to A-4108/S-2016

On behalf of the members of the Commerce and Industry Association of New Jersey (CIANJ), we urge the legislature to use better-than-expected tax amnesty collections to help offset some of the tax increases included in this year's budget package. Specifically, CIANJ recommends the legislature use the opportunity to forgo the more than \$75 million in health, dental, group accident and other insurance premium taxes that are expected to be increased through A-4108/S-2016.

A-4108/S-2016 would more than double the tax rate on group accident and health insurance premiums from 1% to 2.25%. It also applies the 2.25% premium tax to dental service corporations and eliminates the "1/8 rule" for group accident and health insurers.

CIANJ believes the tax rate increases will yield higher insurance premiums for those covered in New Jersey's small market, exacerbating the problem of the number of New Jerseyans without health insurance. Many large companies self-insure, meaning small businesses and individuals will bear the brunt of this tax increase through higher premiums. More than 70,000 individuals in New Jersey's small market have lost or dropped their coverage in the last two years, and a frightening 20,000 of those losses occurred in the past three months. Higher rates will undoubtedly force some New Jerseyans to lose coverage. The Mandated Health Benefits Advisory Commission estimates that a 1% premium increase results in lost coverage for between 4,800 and 14,000 New Jerseyans.

The elimination of the 1/8 rule may also result in limiting options for consumers by pushing insurers out of the New Jersey market. Under the 1/8th rule, New Jersey premiums are compared to worldwide premiums and, to the extent that New Jersey premiums exceed 12.5% of all premiums, the taxable premium base is limited to 12.5% of all collected premiums. The rule is in place to help mitigate costs for insurance companies that conduct a large share of their business in New Jersey, which is one of the most highly taxed and highly regulated states in the nation. Two companies would be impacted by this rule change, and it could force at least one of them entirely out of the New Jersey market.

Passage of A-4108/S-2016 would result in increased insurance rates and could equal fewer choices for consumers. These outcomes run counter to New Jersey's overall policy objectives and worsen the business climate in New Jersey. For these reasons, we oppose A-4108/S-2016 and urge this committee to reject the proposal.

As always, CIANJ welcomes the opportunity to work with this committee on issues related to the budget and growing the New Jersey economy. Please do not hesitate to contact me with any questions or concerns at 201.368.2100 or ptyahla@cianj.org. Thank you for your time and consideration.