

## **Congressional Record- Extension of Remarks, E3391**

**October 2, 1986**

### **Partial Statement of Chairman Rostenkowski on Senate Floor Colloquies Regarding HR 3838. The Tax Reform Act of 1986.**

With respect to the colloquies between Senator Dole and Senator Packwood regarding corporate-owned life insurance located on pages S13956 and S13957 of the Congressional Record dated September 27, 1986. I would like to emphasize that the understands contained in my statement with Congressman Pickle and Congressman Jones regarding the correct interpretation of this provision, located on page H8361 of the Congressional Record dated September 25, 1986, represent the limits of the agreed upon interpretations of the conferees regarding this provision. I am particularly concerned among other issues, by statements which seem to validate the ability to substitute insureds under a policy and qualify under the grandfather provisions. This issue as never discussed, and therefore never agreed to, by the conferees. In addition, I would like to clarify that certain factual determinations under this provision would be made by the internal Revenue Service and the courts.

With respect to the colloquy between the Senator Packwood and Senator Chafee on pages S13957 and S13959 of the Congressional Record dated September 27, 1986, relating to the tax treatment of Blue Cross and Blue Shield organization, I believe that certain aspects of that colloquy do not reflect my understanding of the intent of the conferees. In the portion of the colloquy in which Senator Packwood and Senator Chafee discuss what constitutes a material change in structure or operations which makes existing Blue Cross or Blue Shield organization ineligible for the special deduction provided for such organizations, there is a discussion of certain changes in business practices and whether or not such changes constitute a "material" change. Specifically, Senator Packwood discusses certain changes in policies like adding special coverage for nonsmokers or raising premiums under an existing premium structure.

It was not the intent of the conferees to prevent an existing Blue Cross and Blue Shield organization from making normal adjustments in their business practices, such as adjustments to reflect new trends in cost containment or adding new coverage. However, it is my understanding that any change in business practice that either eliminates coverage of high-risk individuals or small groups or that has the effect of eliminating such coverage is a material change in structure or operation. For example, a premium increase that reflects normal increases in medical costs is not itself treated as a material change. On the other hand, a premium increase that has the effect of making high-risk coverage unavailable because of the cost of such coverage is treated as a material change.