



STATEMENT BEFORE

HOUSE DEMOCRATIC STEERING AND POLICY COMMITTEE

FORUM ON THE URGENT NEED FOR HEALTHCARE REFORM

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SMALL BUSINESS MAJORITY

Small Business Majority appreciates the opportunity to provide the small business perspective as the House of Representatives continues its work on healthcare reform. Thank you to Speaker Pelosi and Chairs DeLauro and Miller, as well as to Chairs Rangel, Slaughter and Waxman, for inviting us here today to help complete this historic task.

Let me briefly describe our organization and our interest in this issue. Small Business Majority is a nonprofit, nonpartisan organization founded and run by small business owners and focused on solving the biggest problem facing small businesses today: the skyrocketing cost of healthcare coverage. We represent the nearly 28 million Americans who are self-employed or own businesses of up to 100 employees. Our organization sponsors scientific research that guides us to understand and represent the interests of small businesses across the country.

We are pleased to be here today to support comprehensive healthcare reform that will reduce the cost of health insurance and medical care, while making coverage affordable, fair and accessible to all Americans.

We must pass healthcare reform now

As President Obama stated unequivocally last week, the *status quo* when it comes to our healthcare system is unacceptable. Our research shows that enacting comprehensive healthcare reform is small business owners' number one need, and controlling costs is essential to ensuring our ability to obtain high-quality, affordable healthcare for ourselves, our families and our employees.

Over the past several months we have polled small business owners in 17 states and they have consistently supported healthcare reform as a vital step toward a reinvigorated economy.

- An average of 72% say they are struggling to afford health insurance;
- Of the majority who don't offer health insurance, 86% say that it is due to cost;
- And, an average of 67% overall say reform is necessary to save the economy.

Meanwhile, our economic research released in June shows that without reform, premiums will continue to rise, taking a huge toll on the profits of small businesses and the jobs they provide. We estimate that over the next 10 years, should Congress fail to act, small businesses will spend \$2.4 trillion on healthcare premiums. Significant reform, based on the type of framework set forth in H.R. 3200, would improve that situation considerably, according to an analysis carried out for us by Massachusetts Institute of Technology professor Jonathan Gruber.

Other research backs up our deep concern about the economic impact of unfettered growth of the healthcare system. Just last week the Commonwealth Fund issued a report that noted that small businesses would stand to benefit the most from many of the healthcare reform provisions, including extending healthcare coverage to everyone and reform of the small

group market.¹ The report noted that 39 million Americans work for companies with fewer than 50 employees, but just 25 percent of them have health insurance through their employer.

Small businesses are at a particular disadvantage in the marketplace largely because our small numbers make rates higher. According to other research supported by the Commonwealth Fund, on average we pay 18% more than big businesses for coverage.² Small businesses, including the growing legions of the self-employed, need a level playing field to succeed and continue as the job generator for the US economy.

Our scientific polling shows that the majority of small business owners feel we have a responsibility to offer health coverage to our employees. With staffs of 5, 10 or even 20 people, we run tight-knit organizations, know our employees well and depend on each employee for our businesses' success. We don't want to see our valuable employees wiped out financially by a health problem, or ignore illnesses because they can't afford to go to the doctor.

Many small businesses are forced to drop coverage altogether. According to the Kaiser Family Foundation, among firms with 3 to 9 workers, the percentage that offers insurance dropped from 57% in 2000 to 49% in 2008.³

This makes small business employees a significant portion of the uninsured population. Of the 45 million Americans without health insurance in 2007, nearly 23 million were small business owners, employees or their dependents, according to Employee Benefit Research Institute estimates.⁴

Finally, if we don't get control of the healthcare crisis facing small businesses, we will impede our overall economic growth. Small businesses with fewer than 100 employees employ 42% of American workers.⁵ Additionally, nearly 22 million self-employed entrepreneurs run businesses that expand our economy and incubate larger businesses. Traditionally, small businesses lead the way out of recessions. Addressing this crisis is essential to our vitality as a nation.

Behind the statistics, though, there are millions of individuals struggling with medical bills and keeping their businesses afloat. We hear stories every day from small business owners who can't get coverage because they've been sick in the past or the health plans they are offered are outrageously priced. Louise Hardaway, a would-be entrepreneur in the pharmaceutical products industry in Nashville, had to give up on starting her own business

¹ M. M. Doty, S. R. Collins, S. D. Rustgi, and J. L. Nicholson, *Out of Options: Why So Many Workers in Small Businesses Lack Affordable Health Insurance, and How Health Care Reform Can Help*, The Commonwealth Fund, September 2009.

² J Gabel et al, *Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii is Up, Wyoming is Down*, *Health Affairs*, May/June 2006.

³ Kaiser Family Foundation/HRET Employer Health Benefits Annual Survey, 2008

⁴ Employee Benefit Research Institute, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2008 Current Population*

⁵ U.S. Bureau of Census, *2006 County Business Patterns*

after just a few months because she couldn't get decent coverage—one company quoted her a \$13,000 monthly premium for herself and one employee.

Many other businesses maintain coverage for employees, but the cost is taking a bigger and bigger chunk out of our operating budgets. It's common to hear about double-digit premium increases each year, eating into profits and sometimes forcing staff reductions; this year it has been estimated that healthcare costs will rise 9 percent, on average.⁶ These rising bills frequently force business owners to shrink the insurance benefit to fit their budget to the point where it's little more than catastrophic coverage. That leaves employees with huge out-of-pocket expenses or a share of the premium they can't afford, forcing them to drop coverage. That concerns Larry Pearson, owner of a mail-order bakery in Santa Cruz, California, who says that "the tremendous downside to being uninsured can be instant poverty and bankruptcy, and that's not something my employees deserve."

So Congress must act. Small businesses are depending on it.

The key elements of HR 3200 have widespread small business support

We appreciate the work that's already been done in all three House committees: Energy and Commerce, Ways and Means and Education and Labor. The versions of HR 3200 that have emerged from the House deliberations address many of the major problems with our broken healthcare system—setting up an exchange, cutting costs, reforming insurance rules, providing tax credits and spreading broadly the responsibility for paying for healthcare.

We must remember, as President Obama said in his speech, there is agreement on about eighty percent of what we need to do to reform healthcare. This is true of small businesses as well.

According to our polling of small business owners this summer across the country:

- 83% support the elimination of the insurance companies' preexisting conditions rules;
- 81% support the establishment of an exchange where individuals and small business owners can purchase insurance;
- 67% support the concept of shared responsibility among individuals, employers, insurance companies, providers, and government to finance the cost of healthcare;
- A majority cite cost containment as one of the top two goals in solving our healthcare crisis.

This broad consensus must be kept in mind as we cut through the unproductive noise that we've been hearing over the past six weeks.

Specific benefits of HR 3200

We are pleased that the House bills include provisions on **cost containment**, such as:

- Implementing an electronic medical records system to improve efficiency

⁶ PriceWaterhouseCoopers, "Behind the Numbers: Medical cost trends for 2009."

- Providing funding for enforcement to reduce waste, fraud and abuse in Medicare and Medicaid
- Changing the way doctors and hospitals are paid by moving away from a system that rewards quantity of service to one that rewards the best outcomes for patients
- Simplifying the paperwork burden that adds tremendous costs and hassles for patients, providers and businesses
- Tort reform that would reduce expensive and unnecessary “defensive medicine” that doctors tell us is driving up health costs
- Additional cost containment amendments totaling \$100 billion savings that were added by the Energy and Commerce Committee

We are pleased to see that the House bills keep a new insurance **exchange** on the national level rather than breaking it up by state. Larger pools of insured people help spread risk, keep prices down and offer the opportunity for greater insurer competition. It is important to maintain this provision during the conference process with the Senate, whose current bill from the HELP Committee establishes smaller-scale, state-level exchanges.

We believe that it is essential to have an insurance exchange that is well designed and robust. A broad, well-functioning marketplace offering consistency, fairness and healthy competition will vastly improve the availability and affordability of coverage to small businesses and the self-employed.

To be financially successful, the exchange must ensure that it avoids adverse selection. Requirements that individuals and businesses purchase insurance, accompanied by guarantees of affordability, will help provide a wide, diverse base for the exchange. It is vital that the ultimate design of the exchange include as broad a group as possible and potentially include incentives for people to buy into it. To create stability it is important that the exchange can grow in strength as quickly as possible, taking into account the need to ensure a smooth transition.

For small businesses, this kind of exchange will go far in reducing the chaos and decreasing the administrative burden involved in choosing and maintaining health insurance both for business owners and for their employees if they offer coverage.

We are encouraged by the bills’ provisions for **insurance reform**, including standardized benefit packages to make it easier to make informed choices on cost and quality; guaranteed availability of coverage; no exclusions for preexisting health conditions; health insurance rating rules that prohibit adjustments for health status; a cap on premiums and out-of-pocket spending; marketplace transparency; and affordability credits to ensure that small business employees and others can actually participate without financial hardship.

We were pleased to see the bills **accommodate the needs of the smallest businesses** that struggle to afford healthcare coverage. This includes the amendment that increases the exemption for those businesses with payrolls up to \$500,000. Another amendment expands access to the exchange to more small businesses. The bill also provides tax credits of up to

50 percent of premium expenses on a sliding scale to businesses with fewer than 25 employees.

Finally, the uninsured population includes a large number of low-wage workers whose employers cannot afford to provide health insurance. The **individual insurance requirement coupled with premium assistance for lower-wage employees** will help close this gap. In fact, the bill overall is projected to bring healthcare coverage to 97 percent of Americans, including millions of small business owners and employees.

We must all focus our energies to complete the legislative process

We compliment the House committees for working long and hard to improve the bills and deal with the many complexities of reforming our healthcare system, which is 16% of our economy, three times the size of the military budget. And we appreciate the efforts of the committees and the House leadership to seek small business input into the legislation.

All stakeholders must stay constructively engaged with the Congress and the President as this historic legislation moves forward. There are good ideas in all the plans: the House's, the Senate's and President Obama's recently presented plan. With continued dialogue and discussion we will get the best results for all, including America's small businesses, which are the backbone of our economy.

We also remain vitally concerned for the 22 million self-employed entrepreneurs who are the foundation of business startups and economic growth in our country. All the plans before Congress will ensure that self-employed business owners can buy affordable, high-quality health insurance. Yet the self-employed are at a disadvantage because the tax code does not allow them to fully deduct the cost of their health insurance, as larger businesses can. Congress should remedy that inequity. Bipartisan bills before both the Senate and the House propose this policy change. We recommend that additional cost containment measures be added to fund this tax relief.

Conclusion

President Obama last week reminded us all why we are pursuing this sometimes arduous task—to make the lives of Americans better, and to reduce the burdens of illness and financial distress that all too many people in this country suffer because of our broken healthcare system. As the President noted, “We are the only democracy—the only advanced democracy on Earth—the only wealthy nation—that allows such hardship for millions of its people.”

As our economic study shows, doing nothing to reform our healthcare system will devastate small business in many ways—jobs will be lost, employee wages suppressed, profits reduced and business investments shrunk. To prevent this we all must stay engaged and see healthcare reform through to the finish line. It has been said many times, but bears repeating—we should not let the perfect be the enemy of the good. With hard work over the next two months, we will pass a bill that will reverse the trend of recent decades, begin to

tame the hyperinflation of healthcare costs and ensure that affordable, high-quality healthcare is available to every small business owner, every small business employee, and, indeed, every American.