

**PRESCRIPTIONS FOR HEALTH CARE: SOLUTIONS
TO THE PROBLEM**

HEARING

BEFORE THE

**COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES**

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

WASHINGTON, DC, MARCH 2, 2005

Serial No. 109-3

Printed for the use of the Committee on Small Business



Available via the World Wide Web: <http://www.access.gpo.gov/congress/house>

U.S. GOVERNMENT PRINTING OFFICE

21-251 PDF

WASHINGTON : 2005

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON SMALL BUSINESS

DONALD A. MANZULLO, Illinois, *Chairman*

ROSCOE BARTLETT, Maryland, *Vice
Chairman*

SUE KELLY, New York

STEVE CHABOT, Ohio

SAM GRAVES, Missouri

TODD AKIN, Missouri

BILL SHUSTER, Pennsylvania

MARILYN MUSGRAVE, Colorado

JEB BRADLEY, New Hampshire

STEVE KING, Iowa

THADDEUS McCOTTER, Michigan

RIC KELLER, Florida

TED POE, Texas

MICHAEL SODREL, Indiana

JEFF FORTENBERRY, Nebraska

MICHAEL FITZPATRICK, Pennsylvania

LYNN WESTMORELAND, Georgia

LOUIE GOHMERT, Texas

NYDIA VELÁZQUEZ, New York

JUANITA MILLENDER-McDONALD,
California

TOM UDALL, New Mexico

DANIEL LIPINSKI, Illinois

ENI FALEOMAVEAGA, American Samoa

DONNA CHRISTENSEN, Virgin Islands

DANNY DAVIS, Illinois

ED CASE, Hawaii

MADELEINE BORDALLO, Guam

RAÚL GRIJALVA, Arizona

MICHAEL MICHAUD, Maine

LINDA SANCHEZ, California

JOHN BARROW, Georgia

MELISSA BEAN, Illinois

GWEN MOORE, Wisconsin

J. MATTHEW SZYMANSKI, *Chief of Staff*

PHIL ESKELAND, *Deputy Chief of Staff/Policy Director*

MICHAEL DAY, *Minority Staff Director*

CONTENTS

WITNESSES

	Page
King, Hon. Steve (IA-05), Congressman, U.S. House of Representatives	3
O'Grady, Hon. Mike, Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services	6
Haynes, Mr. W. Thomas, Executive Director, The Coca-Cola Bottlers' Associa- tion	11
Roberts, Ms. Holly Stephen, HSA Coalition	13
Hughes, Mr. Robert, President, National Association of the Self-Employed, Hall & Hughes, LLC	14
Kerrigan, Ms. Karen, Chairwoman, Small Business Entrepreneurship Coun- cil	15
Shalek, Mr. Scott, Shalek Financial Services	17

APPENDIX

Opening statements:	
Manzullo, Hon. Donald A.	36
Velazquez, Hon. Nydia	38
Lipinski, Hon. Daniel	40
Prepared statements:	
King, Hon. Steve (IA-05), Congressman, U.S. House of Representatives	42
O'Grady, Hon. Mike, Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services	45
Haynes, Mr. W. Thomas, Executive Director, The Coca-Cola Bottlers' Association	58
Roberts, Ms. Holly Stephen, HSA Coalition	63
Hughes, Mr. Robert, President, National Association of the Self-Em- ployed, Hall & Hughes, LLC	65
Kerrigan, Ms. Karen, Chairwoman, Small Business Entrepreneurship Council	70
Shalek, Mr. Scott, Shalek Financial Services	77
Additional material:	
Welch, Ms. Maria, Respira Medical, Inc.	87

PRESCRIPTIONS FOR HEALTH CARE: SOLUTIONS TO THE PROBLEM

WEDNESDAY, MARCH 2, 2005

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Committee met, pursuant to call, at 2:10 p.m. in Room 311, Cannon House Office Building, Hon. Donald Manzullo [Chairman of the Committee] presiding.

Present: Representatives Manzullo, Musgrave, King, Fitzpatrick, Westmoreland, Gohmert, Velazquez, Lipinski, Christensen, Bordallo, Barrow, Bean and Moore.

Chairman MANZULLO. Good afternoon. It is my pleasure to welcome everyone to today's Small Business Committee hearing on the critical issue of small business access and alternatives to health care.

The hearing will serve as a forum to discuss and promote innovative solutions to help small businesses meet their health care needs. Exorbitant health care costs are one of the biggest expenses small businesses and the self-employed incur as they struggle to provide coverage for employees.

We have assembled here today a panel of what I like to look at as innovators, as people that have specific plans. People in the field like Scott Shalek, who on a day-to-day basis are challenged, people in positions of public policy that have to come up with very difficult decisions and people representing various groups around the country who are expressing their tremendous concern over the cost of health care.

Self-employed workers pay their full 15.3 percent payroll tax for social security and Medicare on top of individual income tax. In recent years, Congress passed legislation allowing them to deduct their health care expenses from their individual income taxes. However, they do not receive a deduction from their payroll tax.

Last year, along with Congresswoman Velazquez, we introduced the Self-Employed Health Care Affordability Act that would allow those small business owners to deduct their health insurance costs from their payroll taxes. There are other tax credits and additional ideas we will hear more about.

In terms of the order of proceeding, Congresswoman Velazquez will have her opening statement, and then I am going to recognize Congressman King and Congressman Lipinski for an unusual round of opening statements, but each of them has introduced very specific legislation dealing with this. Then we will proceed imme-

diately to Assistant Secretary Michael O'Grady. We are anticipating votes at 2:45.

[Chairman Manzullo's opening statement may be found in the appendix.]

Congresswoman Velazquez?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

The number one challenge facing our nation's small businesses today is their ability to access affordable health care. All one needs to do is look at the numbers to see the effect that rising health care costs are having on small businesses. These costs have consistently worsened by double digits—11 percent in 2002, 13 percent in 2003 and 12 percent in 2004, adding up to an increase of 60 percent over the past five years.

Clearly we have a health care crisis that needs to be addressed. There is no question that there is a growing insurance gap between corporate America and small business. Large businesses have a coverage rate approaching a healthy 90 percent for employer based health insurance, while small firms have a coverage rate of only 50 percent.

In addition, small firms can expect to pay up to 30 percent more for similar policies offered for their larger counterparts. The truth is that six out of every 10 uninsured Americans are in families headed by self-employed workers or small business employees. This is simply unacceptable.

While it seems that when you recognize the problem and acknowledge that small businesses need access to health care, they have been long on talk and short on action when it comes to providing the solutions to affordable health care.

Since 2001, President Bush repeatedly talks about allowing small businesses to band together to purchase health care for association health plans. This is a common sense solution that has been around long before President Bush took office. In fact, association health plans passed three times in the past four years—three times—with overwhelming bipartisan support.

My question is will AHPs actually pass into law in the 109th Congress, or will this be another Congress that goes down promising a lot and delivering little?

Despite the constant touting of the importance of AHPs, no efforts have been made to move it forward or to offer any pressure. We have seen in the past when President Bush really wants to move something forward he can, as he showed us two years ago with his prescription drug plan.

The reality is that the Republican party controls the White House and both the Senate and the House, and if they want to get this done it can get done. The logical first step will be for the President to pick up the telephone and call Senator Frist to get a commitment from the Majority Leader that this legislation will be brought to the Floor no later than midsummer. That is the least that can be done.

Second, the health care reforms that have passed have fallen vastly short of closing the national gap on insurance. The most significant change has been the health savings accounts, which claim

to help small firms. However, with health care costs on the rise HSAs have not addressed this crisis.

A recent study by the Kaiser Foundation found that only five percent of small firms are seriously looking into offering HSAs next year versus 30 percent of large firms. Despite the fact that HSAs are friendlier options for large businesses, they are being sold as a solution for small firms. The reality is that small businesses see little benefit from HSAs.

Protecting small businesses and the self-employed should be a top priority, but unfortunately health care costs are only continuing to skyrocket. Promises have been made on how they plan to attack this crisis, but at some point this talk needs to stop and some action needs to be taken.

This question has been going on for too long now. We need to end the back and forth and start taking steps forward to implement a solution that will actually help small business owners. As the economic engines of this country, small businesses deserve to be confident in their ability to provide health care for themselves and their families.

Thank you, Mr. Chairman.

[Ranking Member Velazquez's opening statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

Congressman King, you are recognized for five minutes.

Mr. KING. Thank you, Mr. Chairman, for the opportunity to testify before the Small Business Committee regarding the worsening health care crisis that faces our country.

The small business community is among the hardest hit, and I commend you, Mr. Chairman and Ranking Member, for your outstanding leadership in holding these hearings for the opportunity to discuss the worsening access to health care for small businesses, midsize businesses and their employees.

Mr. Chairman, health care costs are escalating, and there are few options for small business owners to choose from when selecting insurance coverage for their employees. In order to keep and attract talented workers, sourcing affordable quality health insurance is a top concern.

As an owner/operator of a small construction business for over 28 years, I am well aware that the largest challenges here are access and cost. Even though small business is the backbone of our American economy, over 60 percent of the estimated 43 million people without health insurance are small business owners, employees and—

Chairman MANZULLO. Would the gentleman yield? Could you get right to the legislation that you have proposed? We have a tight clock here, Steve.

Mr. KING. I will be happy to do that, Mr. Chairman. If I could also ask unanimous consent to introduce this testimony into the record.

Chairman MANZULLO. Without objection.

Mr. KING. Thank you, Mr. Chairman.

My legislation is H.R. 37, and what it does is it provides for a full deductibility for employees to purchase a health care plan if it is a high deductible plan—\$1,000 deductible for individuals, \$2,000 deductibles for couples and families—if it is in conjunction with a health savings account.

It arises from frustration that I have had as an employer for 28 years, and that is not being able to in those years deduct my own health insurance premiums and allow for my own individual employees.

This is a way that we can supplement the current HSAs and help out individual employees, waitresses and ditch diggers. People that are working on the lower end of this economy have the largest obstacles. As the Chairman said, they are paying 15.4 percent of their wages in payroll taxes, and on top of that when they purchase health insurance they are having to do that with taxable income instead of the after tax dollars like the corporations that hire their competitors.

That is the key and the core to H.R. 37, and I have always believed that anything that was deductible for a corporation for health care or health insurance should also be deductible for individuals in this country.

That would conclude my testimony, Mr. Chairman.

[Congressman King's statement may be found in the appendix.]

Chairman MANZULLO. Thank you, Congressman King.
Congressman Lipinski has some legislation. Go ahead.

Mr. LIPINSKI. Thank you, Mr. Chairman. In 2003, 45 million Americans had no health insurance, an increase of 1.4 million over 2002. Of these 45 million, more than 80 percent hold jobs and work year-round, mostly in small businesses. The problem is they are not poor enough to qualify for Medicaid, but too poor to buy health insurance on their own if their employer does not provide it.

Congressman Mark Kennedy and I have introduced H.R. 756, the Fair Care for the Uninsured Act, which would provide greater equity, access, portability and choice for those who are left behind by today's system. It will also create a marketplace where individuals and families can choose a plan that best fits their need. It is not limited to the type of plan that would apply to.

The Fair Care for the Uninsured Act of 2005 would create a new tax credit for the purchase of private health insurance specifically for uninsured workers who do not have access to an employer-based health plan. This way insurance will become more affordable, more people will become insured, and consumers will have more control. The tax credit would be \$1,000 for an individual and up to \$3,000 for a family of four.

Giving more individuals an opportunity to purchase health insurance will not only benefit them, but it will help insured Americans as well. Families who cannot afford health insurance often have no other health care option than to go to the emergency room. The cost of an emergency room visit is three to four times more expen-

sive than the cost of a regular office visit, and when the uninsured turn up in the emergency room they usually cannot pay for the cost that they incur.

As a diabetic, I know how important it is to utilize preventive services and get proper treatment for even minor problems. Unfortunately, most uninsured people do not have the opportunity to do this. In fact, uninsured diabetics are 11 times more likely to end up in the emergency room than diabetics who do have insurance.

Ultimately these costs are paid by taxpayers in the form of higher taxes and paid by the insured in the form of higher premiums. By making health care more affordable for uninsured Americans we are making it more affordable for everybody.

Additionally, a lack of access to affordable health care/health insurance disproportionately affects America's large and growing Hispanic community. According to the U.S. Census Bureau, over one-third of Hispanics are uninsured compared to 12 percent of non-Hispanic whites. Only 38 percent of Hispanics working in small to medium sized companies have health insurance compared to 63 percent for white, non-Hispanic workers.

This is because most Hispanic workers are heavily concentrated in the service industry and in small businesses, working for firms that do not or cannot afford them health insurance coverage. Therefore, they are disproportionately found outside the normal channels of health insurance in this country. For these hard-working Americans, Fair Care will make insurance more affordable and help alleviate their fears of a medical crisis.

Some might argue that this legislation interferes with employer-based health care, but under Fair Care only persons who do not have access to workplace health coverage qualify for the tax credits.

H.R. 765 also recognizes the importance of health insurance safety nets that exist in 32 states for those who are not otherwise insurable, and it builds upon the success of these programs and helps expand these safety nets to all 50 states.

I thank you very much, Mr. Chairman, for the opportunity to speak on this legislation, and I look forward to hearing the testimony by witnesses regarding their ideas for addressing the health care crisis.

[Congressman Lipinski's statement may be found in the appendix.]

Chairman MANZULLO. Put me on your bill, Steve, put me on your bill.

Ms. VELAZQUEZ. Yes, Mr. Chairman. I would like to take this opportunity to welcome our newest addition to the Small Business Committee from the Democratic side, Gwendolyn Moore from Wisconsin. Welcome.

Ms. MOORE. Well, thank you so much, Ranking Member Velazquez, and thank you, Mr. Chairman. I am so pleased to be here. I am so excited to be able to talk about health care because it is certainly the most burgeoning problem that has an impact on businesses to be able to operate.

I am very curious. I am in a listening mode today. I am very curious as to how some of these plans will serve my constituents. Again, I am from Milwaukee, Wisconsin, and we in Milwaukee, Wisconsin, have the largest gap in growing businesses that offer health care insurance.

Chairman MANZULLO. I am going to have to cut you off here so we can get started.

Ms. MOORE. I am sorry.

Chairman MANZULLO. You will get an opportunity. You and I talked. I am a Marquette Law School graduate.

Ms. MOORE. Yes.

Chairman MANZULLO. You will notice the definite Jesuit influence in my life.

Ms. MOORE. Okay.

Chairman MANZULLO. Our first guest this afternoon is Dr. Michael J. O'Grady, whose claim to fame is that he is a former Senate staffer on the Joint Economic Committee. I was on that Committee, but I think it was before your tenure.

What I want to do is let you go first, and then I am going to do something a little extraordinary, which is to give Mrs. Velazquez five minutes to ask you questions. I will do that because I would like to at least conclude your testimony.

The other Members of the panel may not have an opportunity to ask you questions before the bells go off, if that is okay with you. If you could stick around as long as possible, I would appreciate it, okay?

We look forward to your testimony.

**STATEMENT OF MICHAEL J. O'GRADY, U.S. DEPARTMENT OF
HEALTH AND HUMAN SERVICES**

Mr. O'GRADY. Thank you very much. Good afternoon, Mr. Chairman, Members of the Committee. I am Michael O'Grady, and I am the Assistant Secretary for Planning and Evaluation at HHS. I am honored to be here today to discuss the President's proposals for making health care more affordable and to highlight how small business and their employees can benefit from these proposals.

As you know, small business is the engine that drives our nation's economy. Small firms with fewer than 500 workers employ 50 percent of all private sector employees and generate 60 to 80 percent of the new jobs over the last decade. Unfortunately, the strength of small business is being hindered by escalating health care costs. Small business and their employees need help.

Health care insurance premiums continue to increase faster than both inflation and wages and are higher and more volatile for small firms compared to larger firms. Last year, premiums increased 11.2

percent for all firms, but 13.6 percent for firms between three and 24 workers.

The President is committed to driving down the cost of health insurance for small business owners and their employees. The Congress and the President have already taken a first step in making coverage more affordable by creating health savings accounts.

Health savings accounts were created under the Medicare Prescription Drug Improvement and Modernization Act or MMA. They are used in conjunction with high deductible health plans, and contributions and withdrawals used to pay for eligible medical expenses are tax advantaged.

Since individuals own their own HSAs, the accounts are portable from one employer to another, and unused funds can be carried over from one year to another to help pay for future medical expenses. HSAs provide individuals with more choice, greater individual control, individual ownership and lower health insurance premiums.

The President's 2006 budget includes a comprehensive set of measures to make coverage more affordable and available for small business and the uninsured. It invests \$125.7 billion over 10 years to expand insurance coverage to millions of Americans through tax credits, state purchasing pools, tax deductions and rebates to small employers who contribute to the health savings accounts owned by their employees.

In addition, the President's plan includes association health plans, medical liability reform and the Cover the Kids campaign. In total we estimate that eight to 10 million people will gain health insurance coverage under the President's comprehensive plan. This is significant for small businesses since nearly half of the uninsured are either small business employees or their dependents.

To give you more specifics, the President's budget provides \$19.2 billion over 10 years in credits to small business owners who offer HSAs and contribute to their employees' accounts. This proposal targets small business and relies on private market forces making consumer choice more available, more cost conscious and spending in a more prudent way.

In addition, the President's budget includes \$28.5 billion in tax incentives over 10 years to make high deductible health plans that are used in conjunction with the HSAs more affordable. Currently individuals who purchase their own health insurance do not receive the same tax favored treatment as to health insurance premiums as do employees who receive insurance through their employer.

To level the playing field and encourage the purchase of high deductible plans, the President proposes that both the contributions made to an HSA and the premiums paid to purchase the high deductible health plan be fully deductible.

The President's plan also includes a refundable tax credit for the purchase of health insurance targeted to low income individuals and families, many of whom work for small businesses. Over half of the uninsured have incomes below 200 percent of poverty, and many of these people are not eligible for either employer coverage or for public insurance programs.

The President proposes to invest \$74 billion over the next 10 years in tax credits to help these individuals purchase health in-

insurance. The tax credit would pay for 90 percent of the cost of standard coverage. The credit would be up to \$1,000 per adult and \$500 per child, up to two children, so eligible families with two or more children could receive up to a maximum of \$3,000. Eligible individuals could receive up to \$1,000.

To facilitate the use of tax credits, the President proposes \$4 billion over the next 10 years in grants to encourage states to create insurance pools. To insure that low income Americans get the most out of the tax credits, states could provide a powerful group purchasing mechanism through these state sponsored purchasing pools, allowing individuals to directly reduce their monthly premium payments.

In addition to different tax credit proposals, the President also supports association health plans. Association health plans enable small employers to provide better and more affordable health care coverage options to their employees like those offered by larger employers.

Other proposals in the President's budget call for expanding community health centers to provide quality, compassionate care to patients who need help the most regardless of their ability to pay and the Cover the Kids campaign, which combines an outreach effort from the federal government, states and community organizations to enroll more SCHIP and Medicaid eligible children.

Also, the creation of a national marketplace for individual insurance products allowing individuals to get the best buy they can find anywhere in the country that best meets their individual needs for health insurance coverage and to reform the medical liability system to limit frivolous lawsuits and excessive jury awards and make health care more affordable and accessible to all Americans.

As I have just outlined, the President has an ambitious agenda to drive down health care costs and make insurance coverage more affordable for small businesses and their employees. As a member of the Administration, I look forward to working with you to achieve these goals, and I am happy to answer any questions.

Thank you.

[The Honorable Mike O'Grady's statement may be found in the appendix.]

Chairman MANZULLO. Thank you, Dr. O'Grady.

Mrs. Velazquez, you are recognized for five minutes.

Ms. VELAZQUEZ. Thank you, Mr. O'Grady. In your testimony you discuss health care reforms proposed by the Administration. I noticed that the last proposal included in your prepared remarks was association health plans.

It seems that the \$100 billion expansion of health savings accounts has become the centerpiece of the Presidents' small business health care agenda. We know that these HSAs conform to the President's ownership society agenda just like his social security private accounts, but these HSAs provide little actual benefit to small businesses.

How much of an impact has the fact that association health plans do not correlate with the President's ownership society agen-

da link to the drop of association health plans as one of the Administration's top priorities?

Mr. O'GRADY. I do not think you should assume that somehow there has been a change in priority here. This is an area that in terms of the proposal, it is mostly with the Department of Labor rather than my department, but it certainly is part of the President's agenda.

Ms. VELAZQUEZ. But it is about health insurance.

Mr. O'GRADY. It is certainly about health insurance, and when you think about the advantages of association health plans and the way they would interact with some of these other proposals we only view those as sort of dovetailing in terms of being able to both—both sets of proposals, a number of these different proposals, are all pushing in the same direction.

Certainly the Administration is strongly behind association health plans. I heard your concerns, and I certainly will take those back.

Ms. VELAZQUEZ. I am impressed by association health plans being one of the top priorities of the Administration given the fact that in your prepared remarks the association health plans discussion comes on page 8, almost at the end of your testimony.

Why is it that President Bush has not used his political capital to get the Senate to move the association health plans? After all, when he was campaigning he was talking about association health plans and how much he supports it.

How can we get Senator Frist to bring it to the Floor for a vote?

Mr. O'GRADY. I certainly hear what you are saying. I certainly understand. In terms of the notion of Senator Frist, he does not work for the President, and those dialogues are ongoing.

Certainly in term of the notion of you should not take anything about a position that this holds in the written or oral testimony as indicating somehow this is a rank ordering of the priorities of the Administration. These are all in the budget. These are all things that are being moved forward simultaneously.

One of the things that we hit with the uninsured, and that is a little different than the last Administration, is an idea of just thinking that there are these really key subpopulations and how we get the right policy tool to that population. AHPs are on that list. There is no doubt about it.

Ms. VELAZQUEZ. I can see that. We have voted three times for it, and year after year we promise small businesses in this country that we are going to get it done.

Do you know what? With the prescription drug plan the President wanted that bill passed. A lot of the Members here, conservative members, did not support it. He called Hastert and Tom DeLay and everybody else. He can do the same with this.

As Ranking Member of the Small Business Committee, I know firsthand how the President's latest budget hits small businesses

hard in its attempt to get a handle on the \$427 billion deficit. The Administration's slashed or cut 50 small business programs in the fiscal year 2006 budget because it said it has to keep the deficit in check.

If we need to cut these programs to save money, why is the Administration proposing spending over \$100 billion to expand the health savings accounts? It seems it is completely cynical to talk about the deficit and then spend billions on programs that have little success to reducing health care costs for entrepreneurs.

Mr. O'GRADY. Certainly what you are seeing here is a balance between an attempt to control the deficit, reduce the deficit and how to help as many people as you possibly can with the funds that you have available.

In terms of the way these proposals are going forward, there are two policy goals that are being simultaneously dealt with here; affordability question, no doubt about it, but also how do we go about reducing the number of uninsured.

Ms. VELAZQUEZ. Mr. O'Grady, the Kaiser Foundation did a study that demonstrates that only five percent of small businesses will say that they will use the health savings accounts.

So we are going to spend all this money. We are going to cut by 42 percent the budget for the Small Business Administration, and yet we are doing something that will provide little benefit to small businesses when it comes to health care.

Mr. O'GRADY. I do not think you should assume it is little benefit. What we see in any tax credit proposal that have come forward, whether it is the way 401(k)s were first introduced, IRAs, any of those things where you are talking about getting people to set up accounts that can roll over, that will take a little bit of time for that information to get out.

I know that the people at Treasury are trying and through the IRS to make it quite clear to small business, as well as to all businesses, what is available.

In your opening statement when you were talking about that notion of larger businesses, I would assume that that is sort of what we have seen in pensions and other areas. They move first. That is because they are already offering three or four, so to add an HSA as a fourth option to employees is an easier link for them than a smaller employer who might only have one option and they have to think about it.

Part of this idea is how you get that information out there. How do you make this doable? That is the logic behind the health purchasing pool, the \$4 billion to help the states to be able to set up a pool so they can facilitate.

You could have great insurance premiums, very low, and due to a number of different things. If people do not know about it, it is sort of like having the lowest prices around and you have no real parking lot in front of your store. You can do a great deal on these things, but we have to help people to be able to get in there and get access to this insurance, and that is part of the idea.

When you see what is going on with different proposals where there is a tax credit maybe for the parent, for the child, how you do that sort of stuff? These state purchasing pools are part of building that infrastructure to make this work.

Chairman MANZULLO. Thank you, Mrs. Velazquez.

I think the fact that Senator Frist needs 60 votes to get AHPs through has a little bit to do with the fact that it did not pass this past year.

We will continue with our testimony with Mr. Haynes.

Dr. O'Grady, if you could stick with us as long as you can we would appreciate it.

Mr. O'GRADY. Certainly.

Chairman MANZULLO. Thank you so much.

Our next witness is Tom Haynes, Executive Director of The Coca-Cola Bottlers' Association.

Dan, you better hide that can of pop that you have in front of you there.

Mr. HAYNES. I saw that.

Chairman MANZULLO. Speaking on behalf of the Association of Healthcare Coalition, and make sure you bring the mike close to you, Mr. Haynes. You are recognized for five minutes. Thank you.

**STATEMENT OF W. THOMAS HAYNES, THE COCA-COLA
BOTTLERS' ASSOCIATION**

Mr. HAYNES. Thank you, Chairman Manzullo, for inviting me here today. It is an honor and a privilege. I also want to thank you and Congresswoman Velazquez for your leadership not only on these issues, but more specifically on the issue I am here to talk about, which is the Small Business Health Fairness Act, the AHP legislation.

I am here on behalf of The Coca-Cola Bottlers' Association and the Association Healthcare Coalition, which I serve as president, to urge the Committee and the Congress to move promptly in 2005 to pass AHP legislation.

I have to say that, Congresswoman Velazquez, your remarks hit very close to home because we believe that this, along with a lot of other tools that we are talking about, but primarily in our situation, this legislation is the key to solving some of the health care issues that the small businesses that are part of my membership—

Chairman MANZULLO. Could you get directly into your testimony as to the AHP that your organization runs?

Mr. HAYNES. Sure. Sure.

Chairman MANZULLO. Thank you.

Mr. HAYNES. I would love to, Chairman Manzullo.

We have had a health care program for a number of years. Our association has existed for 90 years. We include every Coca-Cola bottler in America, large and small. Approximately 60 of our 77 members would probably qualify as small businesses. There are 100 or so or fewer employees, the majority by number but certainly not the majority by employment or population.

Our job is to make it possible for those small businesses to remain competitive, to remain economically viable and, to the extent I can, to make them comparable to the big businesses that run Coca-Cola Bottlers all over the country in terms of their ability to survive and thrive.

We had an AHP that covered both large and small bottlers that we had to disband in 2000. We had our smaller bottlers in a pool. That program worked very well. The ultimate cost to our smaller members was very comparable to the cost for our larger members.

Because of state regulations, state mandates, the complexity associated with dealing with all those state requirements, the insurer that we were working with on that program disbanded it and essentially said that they simply cannot put together a program that covers bottlers with fewer than 100 employees.

Essentially we have had to cut off the small businesses that we were supporting and focus our AHP program on the larger businesses. We have maintained that program for the larger businesses. It has been very successful. We have members that have 150 to 250 employees who we believe have health care costs comparable to our largest bottler, which has about 70,000 employees. We believe that for a bottler with 200 employees, they have a very comparable cost as to the largest bottlers.

I came from the Coca-Cola Company. The programs that we offer to bottlers are very comparable in benefits to the program I had as an employee of the Coca-Cola Company, so in the real world our association can close this gap that the small members that I serve are facing.

We cannot do it without AHP legislation. I have tried very, very hard to find every solution I can come up with to provide the same kind of programs for our smaller bottlers as we do for our larger bottlers. I simply have not been able to do it, and we spent a couple years trying.

There are huge numbers of benefits that we could bring not only to those smaller bottlers, but even to some of the people that are sort of in between, the bottlers that are 200 to 500 employees. We could put together a pool program that involves them, and some of our larger bottlers in that size were in our smaller bottler pool before we had to disband it in 2000.

I have looked at the arguments against AHP legislation. I think our association is an example of how they simply do not apply to most association programs. There are a number of other associations that are a part of our coalition. I think that their situations, their stories, would be very similar to ours.

I would simply say, Congresswoman Velazquez, this is a very straightforward, very simple, but very powerful tool to begin to solve and to make a significant dent in the health care issues that are being faced by small employers.

[Mr. Haynes' statement may be found in the appendix.]

Chairman MANZULLO. Thank you.
Our next witness is Holly Stephen Roberts, an independent insurance agent from Madison, Indiana. Is that correct?

Mr. ROBERTS. Yes, sir.

Chairman MANZULLO. Did you play basketball in Madison, Indiana?

Mr. ROBERTS. That would not be pretty, sir.

Chairman MANZULLO. All right.

STATEMENT OF HOLLY STEPHEN ROBERTS, HSA COALITION

Mr. ROBERTS. Thank you, Mr. Chairman, for allowing me to share with this Committee.

When our family moved to Indiana just about a year and a half ago, I did decide to become self-employed as an insurance agent, and I went to work for a local insurance agency, the Madison Insurance Agency, primarily as their life and health agent.

In doing so, I researched and learned about HSAs and how they can benefit people. I knew that high deductible health plans, along with an HSA, was right for my wife and me, so the first one that I wrote was on us.

We chose it because the premiums are lower and we had already decided that we would basically self-insure ourselves for \$5,000 from our own savings should we need to and use the actual health insurance coverage for something major or catastrophic.

Actually, we were willing to do this even before knowing about HSAs. Once we discovered HSAs, it was an extra blessing. This plan became even better because now we get a tax break on something that we were planning to do anyway.

Three months ago, I became a permanent full-time employee at U.S. Filter in Madison, Indiana, and I was given the opportunity to participate in their group health insurance plan. The annual premium for just my wife and me is \$7,604. The premium is the same for each employee regardless of their age, their sex and their lifestyle.

The company does pay a large portion for us and for each employee in the amount of \$5,666, but that leaves us paying our share of \$1,938 a year. Even though this amount is basically the same as the premium on our personal high deductible health plan, we have decided to keep our personal plan and take advantage of our HSA.

This decision is for three reasons. First, we like to be self-sufficient and in control of our finances and decisions concerning things like insurance, et cetera. If I become unemployed or laid off, I would then have to pay the full \$7,600 plus two percent under COBRA.

Second, our contribution to the HSA helps lower the amount of our income, thus lowering our taxes and increasing our savings. Third, it benefits U.S. Filter in that they do not have to pay \$5,666 towards my insurance.

As you know, the biggest problem with group health insurance is that everyone is accepted, the unhealthy as well as the healthy. That is why the premiums are so high. This can lead to adverse selection because the younger, healthier people bail out, leaving the older or the less healthy people to make up the group. This naturally leads to more claim activity and payouts, which leads to higher premiums, and the cycle just continues. Eventually employers and employees alike are not going to be able to afford it.

I am still a self-employed independent contractor working for the insurance agency, but only on a part-time basis now. However, I have been able to talk to quite a few people about high deductible health plans and HSAs. It seems that the self-employed are especially interested since they get a double tax break. They get to write off the actual insurance premiums they pay, as well as their HSA contribution.

I realize that the U.S. Government seems to be and should be encouraging its citizens to be more self-sufficient and take more control over their lives by taking advantage of IRAs, both traditional and Roth, college savings plans, et cetera. We are just thankful that HSAs are another tool that has been given to us to do just that.

Thank you, Mr. Chairman.

[Mr. Roberts' statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

Our next witness is Robert Hughes, president of the National Association of the Self-Employed. We look forward to your testimony.

**STATEMENT OF ROBERT HUGHES, NATIONAL ASSOCIATION
OF THE SELF-EMPLOYED**

Mr. HUGHES. Thank you, Mr. Chairman. On behalf of the NASE's 250,000 members nationwide representing about 600,000 people, we thank you for the opportunity to talk today with the Small Business Committee.

Our typical member is a very small business. We refer to them as micro business. They employ fewer than 10 employees. There is no doubt that the single largest issue for micro business is the cost of health care and related health care coverage.

NASE member Marcos Spizanti, owner of Silicon Construction in St. Charles, Missouri, had to give up his health insurance because of the high cost of premiums. "I could no longer afford to pay the premium, and therefore my wife, child and myself are not insured. I feel it is wrong, and I am angry about it," says Marcos. "If people cannot afford insurance, what makes anyone thing they can afford taxes on top of that? Big business gets too many breaks. How about us little guys?"

Marcos, of course, is referring to the fact that he and 16 million other sole proprietors and partnerships with earned income have to pay the equivalent of payroll taxes on their health insurance premiums.

This huge tax inequity lies in the fact that health insurance premiums are a business deduction for all businesses except sole proprietors and partnerships. Therefore, the sole proprietor pays an

extra tax on health insurance premiums amounting to 15.3 percent of those premiums.

According to the most recent Kaiser Family Foundation study, the self-employed pay on average \$9,950 in insurance premiums for family health coverage. Because they cannot deduct these premiums as ordinary business expenses like other businesses, they are required to pay \$1,522 in additional taxes that no other business entity must pay.

This is money that our members tell us they would use to reinvest in their business, hire part-time assistance or utilize the offset to reduce premium costs they face every year.

The NASE would like to thank Chairman Manzullo and Representative Velazquez, who, in the 108th Congress, introduced the Self-Employed Health Care Affordability Act, which would have removed this inequity in the Tax Code faced by our nation's self-employed.

We believe the enactment of legislation such as this is about fairness for all business owners, not just corporations. We believe enactment will reduce the ranks of the uninsured. We believe the enactment would reduce the net cost of health insurance for the micro business owner.

The NASE strongly supports legislative proposals such as association health plans and health care tax credits. We applaud the implementation of health savings accounts, yet let me restate with emphasis the self-employed are the only segment of the business population that have to pay this extra tax on health insurance premiums. This inequity needs to be corrected.

The NASE and our members appreciate the current efforts of Congress to mitigate the cost burden and access difficulties with health coverages. However, the NASE believes that current legislative solutions are band-aids from larger wounds in the delivery of health care in this country.

We applaud the legislation we hear from Mr. King and Mr. Lipinski in terms of reducing health care costs, health care insurance costs and creating greater access to those health insurance premiums.

Thank you, Mr. Chairman, for the opportunity to talk today.
[Mr. Hughes' statement may be found in the appendix.]

Chairman MANZULLO. It was the result I believe of you testifying last year that we introduced that bill.

Mr. HUGHES. Yes, I think that is correct.

Chairman MANZULLO. Thank you.

Our next witness is Karen Kerrigan of the Small Business & Entrepreneurship Council. We look forward to your testimony.

**STATEMENT OF KAREN KERRIGAN, SMALL BUSINESS &
ENTREPRENEURSHIP COUNCIL**

Ms. KERRIGAN. Thank you. Thank you, Chairman Manzullo, for inviting the SBE Council to be a part of this hearing today. We certainly appreciate your leadership on this most critical issue that

continues to truly torment small business owners, their workforce and, of course, the millions of Americans who lack insurance.

Thank you, Congresswoman Velazquez, for your leadership with respect to your effective advocacy on the issue, as well as your sponsorship and leadership on key legislation like association health plans and the FICA deduction, which would make a meaningful difference for small employers and the self-employed.

Affordability, access and rising premium costs do remain a persistent challenge for the small business sector. While some significant progress has been made through the enactment of HSAs, certainly more needs to be done to promote more affordable access, increase choices and equity in the system.

HSAs have been the breakthrough for small firms and individuals. They are saving significant dollars on healthcare costs through this product, and most significantly, the previously uninsured and small business owners not previously offering health insurance are responding to HSAs.

A recent survey by America's Health Insurance Plan shows that most of the HSA products being purchased are by individuals and small firms, where approximately 30 percent of these buyers were previously uninsured and 16 percent of the new small business purchasers previously did not offer health insurance.

Certainly giving small business owners a tax credit on HSA contributions for the first \$500 per employee with family coverage, on the first \$200 per worker with individual coverage, as has been proposed in the Congress, will help to further promote the accounts and insure more Americans.

However, no matter what is done on the policy and legislative front to help stabilize premium cost and help small employers access more affordable coverage for themselves and their employees, there will still remain a fairly large segment of the working population that for one reason or another will not be able to access health insurance through his or her employer.

That is where the need for individual tax credits come into play. There is growing recognition that treating individuals equitably on the tax front with respect to health coverage costs not only makes sense from a fairness issue, but is a more appropriate solution given the high mobility and nature of today's workforce.

The Fair Care for the Uninsured Act introduced in the 109th Congress by Congressman Mark Kennedy and Dan Lipinski is one approach that is supported by our organization that will provide this desirable tax fairness for individuals.

This advanceable and refundable tax credit, \$1,000 for individuals, \$2,000 for couples, \$500 for dependents and up to \$3,000 for a family, can be used to buy health insurance in the private market and give individuals the freedom to choose their own benefits and cost sharing features.

A complementary proposal supported by the SBE Council that will provide individuals with more choice and access to affordable coverage would allow individuals to buy insurance from any state in the union. This nationwide marketplace is especially important for individuals and states where excessive mandates and regulation have driven up the cost of insurance and depleted the number of carriers in the state, thereby limiting choices.

Giving individuals tax equity with employers with respect to the purchasing of coverage and allowing individuals to shop nationwide for the plan that best meets their personal and financial needs would give consumers more power and choice in the marketplace.

Let me add that the SBE Council is fully supportive of association health plans and the FICA deduction for the self-employed, as well as Mr. King's proposal. These proposals, along with tax credits, bring fairness to the system and will drive competition, which in the long run will make health coverage more affordable for all.

Thank you again, Chairman Manzullo, and I look forward to our dialogue and your questions.

[Ms. Kerrigan's statement may be found in the appendix.]

Chairman MANZULLO. Thank you for your leadership.

Our last witness is Scott Shalek, a near constituent of mine right over the border. Scott has become a good friend. We have called him on numerous occasions when we get stuck on how these plans work.

In fact, we had a hearing in Rockford, Illinois, about three or four years ago, and Scott was sitting in the audience. Phil Burke from Woodstock was talking about the almost nearly 100 percent increase he had in premiums. With a little counsel from you, he ended up with two insurance policies, one for the main and one for the deductible.

Scott, we look forward to your testimony. I know you have a lot to say, but if you could tell us the impact that you have had on being creative, especially with the HSAs? We look forward to all of your testimony.

STATEMENT OF SCOTT SHALEK, SHALEK FINANCIAL SERVICES

Mr. SHALEK. Chairman Manzullo, Ranking Member Velazquez and distinguished Members of Congress, I thank you for the invitation and the opportunity to testify before this Committee today.

My name is Scott Shalek, and I am a former board member of the National Association of Health Underwriters and own an independent insurance agency in Ringwood, Illinois, which specializes in benefits consulting and retirement planning for individuals and businesses ranging in size from one to 500 employees solving many complex problems and diversified situations.

NAHU is an association of insurance professionals involved in the sale and service of health insurance, long-term care insurance and related products serving the insurance needs of over 100 million Americans. We have over 20,000 members around the country. We have been an active participant in solutions for rising costs and the uninsured, and we are pleased to have this opportunity to talk about possible solutions with the Members of the Committee today.

Increasing health care costs across the nation have caused health insurance premiums to rise significantly. This increase has been due to a variety of factors, including technological advances, pharmaceuticals, overutilization, medical liability expenses and aging population. These cost drivers are often magnified by state regulation that decreases competition or stifles creativity and innovation.

If this trend continues, employer based coverage and the financial participation of employers will be eroded. We believe that there is no one magical answer to the problem of the uninsured or for making health insurance more affordable. A multifaceted approach will be required since no one solution will fit the needs of all our citizens.

Any attempt to provide Americans with universal access to health coverage should preserve—

Chairman MANZULLO. Scott, before time runs out I really would like you to get into the AHPs.

Mr. SHALEK. Okay.

Chairman MANZULLO. That is a great story, I mean, with all respect, you know.

Mr. SHALEK. All right.

Chairman MANZULLO. Tell us your story. That is why you are here. Tell us your story.

Mr. SHALEK. Well, with the advent of the Medical Prescription Drug Act—

Chairman MANZULLO. I am sorry. HSAs.

Mr. SHALEK. Yes.

Chairman MANZULLO. I am sorry. Go ahead.

Mr. SHALEK. Well, with the Medical Prescription Drug Improvement Modernization Act of 2003, it created health savings accounts effective January 1, 2004, which basically replaced MSA accounts and fixed many of the flaws contained in the old MSA legislation.

These plans, along with health reimbursement arrangements, have already made a huge impact on health insurance markets of all sizes. The biggest impact has been in the individual market and among small employers. In the first nine months, over 400,000 people enrolled in the HSAs, and current statistics show that about 3,000,000 people now have consumer driven health plans.

On Monday of this week, I worked with a small furniture business with 14 employees that received two rate increases over the last year totaling 24 percent. After reviewing their claim history, we increased their deductible from \$750 to \$2,000 and reduced their premium cost by 15 percent, a savings to the company of over \$1,000 per month.

In addition, with the new plan design their co-insurance improved by 10 percent, and the single employee maximum out-of-pocket cost decreased by \$250 per year. With the savings, the company is starting an HRA this year and planning to contribute to HSA accounts for the employees next year.

In my own situation, my stepson, who is a single parent with two children, could not afford dependent coverage through his em-

ployer. His cost through his employer to cover his children was over \$600 per month. We moved him to a \$2,000 deductible HSA plan, and the cost for both children dropped to \$136 a month.

A few important trends that are occurring with the use of HSAs. Premiums are remaining unchanged or only showing slight increases. Consumers are becoming better educated when they are spending their own money and utilization is decreasing. More people are switching to generic drugs. There is a substantial decrease in consumers running to emergency rooms unless it is a true emergency.

Consumers are asking their physicians more questions about conditions, tests and cost. There is an increase in the purchase of long-term care insurance and other benefits such as vision and dental. Employers are now able to do more long-range planning with regards to their benefits program, and they are soliciting input from their employees.

With the current increasing number of employers converting to consumer driven, high deductible health plans, several insurance carriers are now offering supplemental gap plans to cover out-of-pocket expenses. These low-cost plans help fill the gap based on the employer's current medical plan.

Benefits under these plans vary widely between carriers. Some just have a daily hospital cash benefit while others cover hospital expense, outpatient benefits and physician visits. Most have caps on their maximum benefits, but these limits can be up to \$5,000 or more.

Premiums can be paid by the employer, the employee on a voluntary basis, through HSAs under certain criteria or both. Gap plans are an excellent way to help reduce health care costs for many small businesses.

For the people that work in small businesses who are not able to offer health insurance coverage, it is important that their premiums for HSA compatible health insurance are deductible. Many small employers will be looking at these options in the near future, and a tax credit for part of the contribution to employee HSAs would be a great incentive for them to offer coverage.

Chairman MANZULLO. Scott, you are over by a minute and 12 seconds.

Mr. SHALEK. Sorry. Okay.

[Mr. Shalek's statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

Mr. SHALEK. Thank you.

Chairman MANZULLO. We are still trying to figure out when these votes are coming. They are not coming until 3:15? Is that it? All right.

Dr. O'Grady, Mr. Shalek has talked about the fact that I think there were 400,000 people with HSAs—

Mr. SHALEK. Within the first nine months.

Chairman MANZULLO. —within the first nine months. Do you have any idea on the figure and how that is growing?

Mr. O'GRADY. The figure is, we are hearing different things from different sources. That is sort of the ballpark we are hearing.

We are hearing different things from industry sources. We are hearing different things from sort of the large consulting firms that go out and interview different—you know, do surveys of employers, the sort of stuff that was being referred to before, those sorts of things.

The bottom line is we really will not know for sure until the IRS tells us who actually, you know, was filing and was going forward with the HSA, but, like I said, in terms of this what we have seen before and other things that are using the Tax Code through either credit or deductibility, you do not want to judge too quickly. There is a learning curve there. There is a start up time.

As to the discussion of IRAs and Roth IRAs, those sorts of things can really take off, but I am going to bet that both those you did not see much in the first year.

Chairman MANZULLO. That is my second question. As I stated when I introduced Mr. Shalek, we pass the laws, and then I call him to ask what the laws mean and how they are working.

There appears to be a lot of confusion as to what options are open for what individuals, especially with the HSAs. I would like some discussion as to how we can overcome that, what is the best way to do that.

Mr. Shalek?

Mr. SHALEK. Well, one of the things is a lot of the banks, especially where I live, there is not a bank in the area that is offering HSA accounts right now. My own bank that I own stock in, I am meeting with them next week to explain what an HSA is and how they can participate.

There are some great programs, but people are not getting the word out. It is a big problem. People do not understand them yet. It is new. It is going to take a little time.

Chairman MANZULLO. Ms. Kerrigan, do you have a comment here?

Ms. KERRIGAN. I agree. I mean, there is lag time on this issue. The legislation was only signed into law last year. You know, the regulatory agencies and the IRS had to develop their regulations, which took another few months. Certainly there is this lag time.

You see the early adopters right now who are out there who are getting this product. Then of course you have enrollment periods and all those other things. Certainly you are going to have the larger companies that may respond more affirmatively in terms of looking at this because they have HR departments whose job it is to go look for this type of stuff where small business owners do not.

I find in talking with my members and doing interviews there is tremendous interest on this issue. I also run the HSA Coalition. Our website is hsainsider.com. I know we have had to upgrade our

server and our technology several times because we are getting close to 5,000,000 to 8,000,000 visits per month on that website.

There is a lot of interest out there. You know, as I said, I just think it takes time for this to penetrate into the marketplace, you know, whether it is the people selling them, the insurance companies developing products, the banks, et cetera, all the players. The structure is still coming together.

Chairman MANZULLO. Mr. Shalek, you had mentioned it. Are most of your small business people now are in HSAs?

Mr. SHALEK. Some of them are looking at it for the first time. A lot of them have gone to health reimbursement accounts, and I am planning in the future to switch over to HSAs because they did not understand it, and at that time there was not enough institutions offering an HSA account.

Chairman MANZULLO. Okay.

Mr. SHALEK. They are going to high deductible plans and doing a health reimbursement right now, but I would say in the next year or two I would say probably 70 to 80 percent of our businesses will be switching over to HSAs.

Chairman MANZULLO. Are any people in HSAs now who before that could not afford insurance?

Mr. SHALEK. Yes, quite a few. Well, my own son. He could not afford the insurance for his kids.

Chairman MANZULLO. Your testimony. Okay.

Ms. KERRIGAN. Yes. Chairman Manzullo, as I mentioned in my testimony, 30 percent of the buyers are the previously uninsured, and 16 percent of the new small business purchasers are those who previously did not offer insurance.

I think clearly this is having an impact on the target group who we want to hit, which is uninsured people.

Chairman MANZULLO. Okay. Thank you.
Mrs. Velazquez?

Ms. VELAZQUEZ. Thank you. Mr. Chairman, I would allow the other Members to make questions now. When they finish, I will come back and make more.

Chairman MANZULLO. Congressman Lipinski, do you have any questions?

Mr. LIPINSKI. Thank you, Mr. Chairman. I have a couple different questions.

I want to be in favor of HSAs. My concern is this. I mentioned before I am a diabetic. I know that I am going to have health care costs. There is no question about that.

Mr. Roberts had talked about there being an adverse selection problem right now in that only those people who do have problems or know they are going to have problems are purchasing health insurance.

It seems to me that what HSAs are doing is making it even worse in terms of being an adverse selection problem. I see that if HSAs—you know, it is a great idea if it is going to help those who do not have any insurance. It is better than having no insurance, but I am looking at say HSAs becoming very popular 10 or 20 years down the line.

I know that I need to have regular health insurance. An HSA is not going to help me a whole lot. I am going to be left with an insurance pool talking about regular insurance, insurance we normally think of today. I am going to be in that pool with other people who are just like me who have some kind of chronic condition that they know they are going to need this coverage for. My insurance premiums are just going to be incredibly high because those are the people in that pool.

Now, I am just wondering what any of you would argue or put forward to allay that concern, or is that just where this is going to go?

Mr. O'GRADY. In the spirit of full disclosure, I am a diabetic too. To allay your fears, I would point to research, not a theory.

What we have seen, the precursor to this, was what we referred to a little before, what I kind of think of as consumer directed health care. So it was, but the difference here is now the individual holds the account, and he can roll it over from employer to employer.

It used to be there were a number of employers who did it in a situation where the employer held the account. If you left, you could not take it with you. Now, what they found, and there are a number of them that are in the Midwest. A number of them have tried this, some of the larger employers, but it was in Minnesota.

Part of what they found there is there is a couple things they did. They in effect carved out certain preventive benefits just like you are talking about. You need your testing. You need these sorts of things. These are things that made good health care sense and also make bottom line sense.

You do not want your diabetes getting out of control. They will cost you 10 times as much as if you keep them in tight control. There is no doubt about that. That evidence is in.

They would carve out certain benefits so that you did not face the full deductible for preventive benefits. We certainly are pushing very heavily at HHS on smoking and any number of different things to try and get preventive benefits out there to make sure people do it.

Now, the other thing, in terms of the data that they found. First year data coming in showed very much the pattern you were talking about. Who are the folks who signed up? There were folks who did not expect much health care that their premiums were the vast majority of the health care spending in any particular year, and it went that way.

In year two and three what they found, and to stay on this coincidence, it happened to be the diabetics, is that folks who knew that they were going to have even under very comprehensive care going to have a fair amount of out-of-pocket expenses—they were going to be paying deductibles, they were going to be paying co-insurance—they could use the account, in this case because it was Minnesota, to go to the Mayo Clinic.

So you started to see the mix of people who were interested in this new design move away from sort of what I think everybody's least concern was, that it would be dividing up the current pool and that all of a sudden you are talking about, you know, when you talk about what would people really like to do with their insurance and how would they like to mix this somewhat more traditional coverage with the availability of an account. What you found is people with chronic illness started to see some real advantages to this.

Now, did that mean that the premiums in the group that chose the kind of pre-HSA version, did it go up some? Yes, because those folks had higher average spending than, you know, the 22-year-olds who never cleared their deductible.

In terms of when you think about these things and when you think about the options, I do not think we can assume a kind of default assumption that this is going to just bifurcate in terms of sick high cost people versus low cost people.

Mr. LIPINSKI. I would like to get a hold of what you are talking about and take a look at that.

One quick question for Ms. Kerrigan. Do you have any concern if we allow people to buy health plans in any state that essentially it is a race to the bottom of the state with the lowest regulations is going to be where everyone then is going to go to? Any concerns about that?

Ms. KERRIGAN. Well, I do not. I think right now when you look at various states there already is a race to the bottom, unfortunately. I mean, you do have probably the individuals in most need and those in the middle to low income bracket who cannot afford insurance.

I think the states will respond in terms of, from a competitive perspective in terms of looking at, you know, the types of mandates that they are requiring and seeing if what they are doing in terms of driving up the cost of insurance and whether those are really needed.

People need different types of insurance coverage, and I think the market will respond in that way as well, so I really do not have a concern that it will be a race to the bottom.

I look at it more as the opportunity of people who do not have insurance in some states, who cannot afford it, you know, to actually escape and go to another state and buy something that best meets their personal and their financial needs.

Chairman MANZULLO. Thank you.
Mr. King?

Mr. LIPINSKI. Thank you.

Mr. KING. Thank you, Mr. Chairman.

First I would like to thank Mr. Roberts for bringing this home to a family perspective. That helps everything else make sense here in the testimony.

I would then direct my question to Mr. O'Grady. The thought occurs to me that if we could pass Mr. Lipinski's bill and my bill we would end up with a deductible situation for employees purchasing their own health care plans.

Under those circumstances we still, by my estimation of this federal policy, do not allow necessarily for a small employer who has two or three or a small number of employees with a tiny, little budget struggling against big corporations to enter into an agreement with an employee to purchase an individual health care policy, as opposed to a group.

Is that correct? If so, do you have a recommendation by which we might address that situation? I happen to know that small employers searching to purchase group plans on the market are at a real disadvantage regardless of association health care plans.

Mr. O'GRADY. I think there still is a rub there—there is no doubt about it—in terms of because it would be treated as income to the employee.

You know, it would not be an in-kind benefit and therefore deductible. It would be treated as a cash benefit and therefore taxable. It would still be deductible to the employer, but not to the employee. It would be an after tax sort of a situation.

Now, part of what in terms of the Administration's thinking in terms of how we do this and how do we make these different parts fit together, that is to return to this notion to allow states who want to be able to set up state pooling arrangements.

Could you have something where you have various funds? We have these different disparate programs. We have some kids being covered by Medicaid. We have some kids covered by SCHIP. We have parents who have certain tax advantages either through their employer or on their own.

Some of the things that our experience has been over the last few years with allowing states to be fairly innovative in the waivers that they have had for these different programs, is there some way you can basically take and pool that money coming from employers, coming from the state through either SCHIP or Medicaid or whatever and be able to fairly significantly subsidize the purchase of family coverage, and so you also do not have this sort of ridiculous situation where we have four members of a family and this kid is covered by one program and this kid is covered by another and mom is uninsured and dad gets it as a single coverage through his employer maybe.

You know, we have all this sort of hodgepodge, and so part of the thought there is how do you stay flexible enough that you can pool this money and really have something that is going to be able to offset 50, 60, 70 percent of the price of a premium?

Now, that at this point is the best I can think of to start to dovetail with your concerns. Could you set up a structure so that the

employer could make some sort of a contribution, but it would be viewed in the traditional way that employers are currently contributing towards the purchase of health care.

Mr. KING. And that might be a way to address the rub because, as I understand it currently, if an employer seeks to purchase health insurance for an individual employee they must seek that same level of policy for all employees whatsoever. Is that correct?

Mr. O'GRADY. I believe so, but I would like to double check. If I find out it is not, I will get back to you.

Mr. KING. Mr. Shalek?

Mr. SHALEK. A lot of groups now are offering multiple plans within the group or the employer. A lot of groups now are offering multiple plans within the employer's group lease for the employees. They have a choice of buying up to a higher benefit plan or spending less money for a higher deductible, but they are all group plans. Yes.

Mr. KING. Thank you.
Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you.
Congresswoman Moore?

Ms. MOORE. Thank you so much, Mr. Chairman.

If I ask a question that has already been addressed, please forgive me. I had another meeting out in the hall.

I guess my questions are directed to the panel, but most particularly the Honorable Michael O'Grady. Just really listening to your testimony, there were a couple of things that caught my interest and I am hoping that you will be able to respond.

First as it relates to the association health plans, I was really very, very happy to see that this Administration has gone on to address a lot of the concerns and complaints that have been made about the coverage to take out some of the biases and some of the concerns that we had to address solvency issues, state regulation, consumer protections, national oversight, because I do think that there could be a tremendous benefit from the association health plans.

However, what I am concerned about is this not meeting state mandates. As a person with a background from the state legislature, I can tell you that I have had to fight insurers about including in their plans things like mammograms, contraception, tubal ligations.

I guess what I am thinking is that the economy of scale—say, for example, restaurant workers, many of whom would be women. The economies of scale would enable us to insure this association of employees, so what really could be the harm in meeting the state standards?

As Mr. Lipinski suggested, you know, what you guys see, it would be fitting to have some sort of standard as opposed to a race

to the bottom. You know, women need mammograms. It is amazing that we had to fight to get that in.

You know, we had to fight for that as a covered benefit, and that is the one reservation and concern that I have about those health plans.

Mr. O'GRADY. I think that in terms of when we look at the kind of situation we have with both the uninsured, the underinsured and how different generosity of different plans go, certainly what we have seen in different states, and different states have handled mandated benefits in different ways. You certainly can see there are some examples that have gone to an extreme in terms of various things that they have asked to go on there.

To a certain degree, when you think about where you mandate are you right that in terms of if you take some benefit and you spread it over 100,000 people or whatever you are going to bring down the unit cost of that. There is no doubt about it.

Will you get it at 60 percent of what it would cost you if you tried to purchase it for one individual? Sure. All those different benefits are definitely adding up and so it has in effect a zero sum gain that there is a certain amount there.

Some of the states have. Some of the states have done it, and certainly we have seen it with some of the larger employers who are self-insured. Would you rather offer something not as generous, but offer it to more people?

That is certainly a kind of state for the most part that is decided certainly in terms of Medicaid and SCHIP waivers and some of that.

Ms. MOORE. Can I ask another question because my time is expiring?

Mr. O'GRADY. Sure.

Ms. MOORE. I am very concerned. I saw that you had a refundable tax credit for individuals up to \$3,000. Is that just for their premiums, or is that for their health care?

I am having a hard time understanding how very, very low income people with incomes under \$25,000 are going to benefit from tax credits even with the refundable proposal.

Mr. O'GRADY. Well, it certainly is in terms of—they are going to get the credit even if they pay no taxes whatsoever, so it will be like the earned income tax credit in that sense.

Ms. MOORE. Right.

Mr. O'GRADY. The fact that they may be a \$10,000 a year worker or something like that; they will still get the credit.

Let me double check on that in terms of premium versus because there are other options there that have to do with could you put part of it in. Certainly we have that part of this could go into your health savings account. Would you be able to cash it out directly? I do not believe so if you had just straight out-of-pocket.

Could you do it through a health savings account so some of your money is going towards the premium and the rest of it can go towards the account so you can use that to pay deductibles and co-sharing? Yes, but there are some limits there.

Chairman MANZULLO. We are going to have to recess here. You two ladies wanted to have questions?

Ms. BORDALLO. Real quick questions.

Chairman MANZULLO. That is right. You do not have to vote. They took away your vote.

Ms. BORDALLO. That is right.

Chairman MANZULLO. All right. Both of you do not have to vote here.

Ms. BORDALLO. Mr. Chairman, I just want a clarification very quickly if I could.

Chairman MANZULLO. If you want, we can come back. How are you on time?

Dr. O'Grady, you could be excused because of your schedule.

Absolutely I am willing to come back. I just want to know because you are a physician, and you have lots of questions.

Ms. BORDALLO. I do not have a lot of questions.

Chairman MANZULLO. We will be back in about 25 minutes. Is that okay with the rest of the panelists? Okay. All right. We will recess until then. Is that okay?

Ms. BORDALLO. How long will that be? When should we be back?

Chairman MANZULLO. About 25 minutes. Thank you.

Ms. BORDALLO. Very good.
[Whereupon, a short recess was taken.]

Chairman MANZULLO. Okay. We will resume.

Mr. Haynes, you had a response to Congresswoman Moore's question on mammograms and state mandates, I believe.

Mr. HAYNES. Yes, I did. I am sorry Congresswoman Moore is not here.

Chairman MANZULLO. That is okay.

Mr. HAYNES. The question she asked is one that I have asked, because as I understood her question it was essentially once you facilitate association health plans why can association health plans not go ahead and comply with the state mandates?

I have a plan, and I am trying to get it expanded to cover the smaller bottlers. The carriers are saying the mandates are the obstacle. I think the problem is, you know, I have about 10,000 employees, somewhere between 5,000 and 10,000 employees that I think could benefit from me restoring a small group plan. I may have 25 employees in Illinois and 400 in Iowa and 200 in Minnesota and 15 in New York. I mean, among those I am probably in about 40 some odd states.

The carriers have said in essence, you know, if you had 5,000 employees in each state it would make sense, but to do it for 30 or 40 or 20 or some small number of people in 40 different states, the complexity and the administration is just too much for us to be interested in doing.

I keep testing that answer, but that is the answer I keep getting.

Chairman MANZULLO. Congresswoman Bordallo?

Ms. BORDALLO. Thank you very much, Mr. Chairman, and I want to thank the principals who testified here. Thank you very much for your time.

I also want to commend the Chairman, Mr. Manzullo, and our Ranking Member Velazquez for their leadership in reaching across the aisle to look for bipartisan solutions to these concerns.

Mr. Chairman, Assistant Secretary O'Grady left. Is that correct? I do not know if anybody can answer this question, but I want to go on record to ask it.

There has been a great deal of discussion this afternoon about the state high risk pools, and I think it is a move in the right direction. However, the original state high risk authorization did not include my district of Guam, nor did it include any other territories, and seated right next to me is the congresswoman from the Virgin Islands.

In putting political capital behind us, can I assume that the Administration would support authorizing grant funding to the U.S. territories? It is very important, and it has been mentioned several times here this afternoon, just mentions of states, never territories.

Now, the Senate—I understand in the 107th, Mr. Chairman, this was authorized, but we were not included.

Chairman MANZULLO. If you would like to reduce that question to writing, we will attach a cover letter to it, Congresswoman Velazquez and I—

Ms. BORDALLO. All right.

Chairman MANZULLO. —and get that over to the Department of Health and Human Services.

Is that okay with you, Congresswoman Velazquez, to certify her question?

Ms. VELAZQUEZ. Yes.

Ms. BORDALLO. I would also like to ask the two of you. I think the Senate, it has gone through their reauthorization. I do not know whether we are included in that.

Chairman MANZULLO. Okay.

Ms. BORDALLO. That will be another question I will place in the letter.

Chairman MANZULLO. Okay. We would be glad to do that.

Ms. BORDALLO. All right. That is my big question. I am just very concerned because many times the territories are forgotten. Thank you very much.

Chairman MANZULLO. Dr. Christensen?

Ms. CHRISTENSEN. Thank you, and I thank you, Mr. Chairman and Ranking Member, for allowing the hearing to continue. It is a very important hearing, and I always welcome the opportunity because this is sometimes the only opportunity I have to talk about healthcare issues.

I come from the perspective of the chair of the Health Braintrust of the Congressional Black Caucus, that is interested in insuring that everyone has access to health care and access to health care coverage, so I just want to set that as a background.

One of the main reasons and perhaps the only reason that AHPs have not passed in three tries is the fact that all of the proposals eliminate state regulation. If the main aim is to cover small business employees without undermining benefits and coverage or even risk doing so, why can we not look at other ways? Why does it have to be association health plans?

We have tried on three occasions. It has passed the House, but I do not think it is going to pass even in this Congress with the majority that we have. Why do we not instead look at the states, pooling with the state insurance coverage or other ways of pooling so we accomplish the same thing and probably accomplish more because it does not appear that the association health plans are going to be successful in passing through Congress.

You seem puzzled, so let me just go to the quote from one of the agencies, the Center for Studying Health Care System Change. The option of allowing small firms to join existing state employee pools may offer the best choice because it offers stability, simplicity and affordability, and I am quoting across. I am not quoting the entire statement. It offers a choice of plans, competitive low load rates that are rarely possible for small firms, and it allows them to stay under state regulations.

Now, what is wrong with doing it by allowing the small businesses to join existing state employee pools instead of fighting the AHP battle year after year, Congress after Congress?

Chairman MANZULLO. Anybody want to? Scott?

Mr. SHALEK. One of the things I have seen in Illinois is that, and we have bills proposed to do that, but the problem in Illinois is the state cannot manage its own health insurance program adequately enough to save small businesses money.

I think the only advantage to an AHP is the exemption from the state mandates, which will then erode the private market sector on health insurance. About the only thing that could be done to make everything on an even playing field is for Congress to preempt employers from state mandates.

Ms. CHRISTENSEN. Well, what if we were able to provide some assistance? Some on the opponent side of AHPs say labor really is not able to regulate either, but if some assistance could be provided from the federal level to the states, because this is such an important issue, to better manage their state employee pools we would get over a hurdle that seems to be impeding passage of anything to help small businesses.

Ms. KERRIGAN. If I could just address this? I could think about it a little further and maybe provide a more thoughtful response in writing, but I do know if you are talking about AHPs from a national perspective what you are bringing to the table is a larger pool of employees that you would be able to better leverage in negotiating more affordable health care costs.

I think the power of numbers in terms of being able to negotiate these costs through the national model where you have organizations that have national memberships is, you know, one of the driving forces; that you have larger numbers of people that you can then use in the marketplace and negotiate for better plans and more affordable health insurance options for your members.

I mean, that is just something that comes to my mind. I know there are pooling arrangements at the state level. Some have worked. Some have not for reasons described by my fellow witness, but the power of numbers do help in this regard.

Mr. HAYNES. Could I respond a little bit further too? On the mandate issue, I think it is important, and I know the Committee realizes this, but this is not a question of whether to preempt mandates or not because that has already been done with respect to large employers and unions. The question is whether you should put small business on the same footing through bona fide associations as large employers.

I think the second thing that is important is just to reiterate her point. The administrative cost piece of this; really the size and scale, makes a very significant difference. Our program that we have, which is not as big as we want it to be because we would like to include the small bottlers, already has administrative costs in the six to seven percent range.

It is my understanding that on a nationwide basis small groups that rely on commercial markets pay administrative costs that run between 17 and 30 percent. That additional cost, that administrative cost, to me is one of the real key leverage points of AHP legislation.

I think in our situation there is dramatic evidence that it does work. I know there are a number of other AHPs that have shown that they likewise can drive those administrative costs down, which drives down the cost not only to the employers, but the employees, and frankly help solve in many cases an uninsured problem. In our case, as our bottlers dropped out of the small group, in many cases the ultimate result has been uninsured; not just higher costs, but a significant increase in the number of people who were uninsured.

Chairman MANZULLO. I have a question. Mr. Haynes, when you said that the smaller guys had to drop out of the AHPs, my understanding is that with the pending legislation which passed the House, I think three times that if you had 1,000 people in one shop and two in the other shop that you would end up with a group rating so that everybody is considered to be essentially working for the same employer.

Is that a correct assessment of it?

Mr. HAYNES. Yes. That is my understanding of how it works, and that is how our program worked before.

Chairman MANZULLO. But what happened with the little guys? How could they be rated individually and still be part of an AHP?

Mr. HAYNES. Well, in our small group program we had them rated as a pool, okay, and when they dropped out they ended up having to go out to the commercial market and buy based upon whatever rating was—

Chairman MANZULLO. So the pool was not big enough?

Mr. HAYNES. Correct.

Chairman MANZULLO. Okay. Okay.
Congresswoman Velazquez?

Ms. VELAZQUEZ. Thank you.

Mr. Haynes, we keep hearing that if association health plans are passed, businesses will drop benefits, and it will be a race to the bottom with only bare-bones plans.

What would you say to those people who claim that you only want association health plans so that you can cut benefits?

Mr. HAYNES. Well, the plan we have involves, you know, a set of benefits that I would stack up against any large employer plan.

The reality is that anything we do with our bottlers has to be competitive. Our bottlers themselves have to be competitive in the marketplace, and to some extent they have to be competitive with big bottlers because there is a market where they compete for employees, and they also compete to continue to exist because a lot of the larger bottlers have bought out the smaller bottlers. If they cannot operate as efficiently, their best option is to sell out.

I think a bare-bones plan, A, if we offered it would not be competitive, and, B, if it was the option that our members chose it like-

wise would not be competitive. What has happened is they have gone into the commercial market and the costs have gone up. They have resorted to more bare-bones plans to manage those costs.

The reality is that as we explored what some of these people who dropped out of our plan have done, many of them have increased deductibles, cut coverages and made the program sufficiently unattractive to the employees, particularly younger employees that a large percentage of them are now going uninsured.

Ms. VELAZQUEZ. If it is good for big business, it should be good for small businesses, or if it is good for unions, it should be good for small businesses.

Mr. Haynes, I know that you talk about how through your association health plans that you were able to keep health care costs down for your businesses, reducing the administrative cost and increasing your bargaining power.

I would also like to know, what do you think about association health plans? What would be the effect of the association health plan in terms of insurance markets in the states?

Mr. HAYNES. It is simply more competition. Frankly, I think that is a good thing for everybody.

Ms. VELAZQUEZ. Do you think it will force insurance companies, many of them states where they have a monopoly on the market, to start negotiating rates with small businesses?

Mr. HAYNES. Absolutely. We have real world experience with that in other insurance markets where we write commercial liability insurance. As we have gotten into additional lines, it has created a lot of additional competition for commercial insurance. It has driven those costs down very quickly and very dramatically.

There is every reason to believe that is exactly what would happen in AHPs, both in our case and with other AHPs.

Ms. VELAZQUEZ. What would you say to the fact that a month before the Presidential election, the White House announced that they wanted to add more groups into the association health plan legislation, but not small businesses?

Do you think adding civic groups and other groups into the association health plans will help, or how difficult would it make it to pass?

Mr. HAYNES. That is maybe not a question I am most qualified to answer because it deals with Washington, and that is not what I do day-to-day.

Ms. VELAZQUEZ. But have you been consulted as a person who is an advocate for association health plans?

Mr. HAYNES. Not personally, but it could well be that other members of our coalition have been part of that discussion. I certainly will follow up on it myself.

Ms. VELAZQUEZ. But do you see the logic? The association health plan's main focus is to help small businesses, so I do not know what kind of benefit small businesses will have by adding civic groups and other groups into the association health plans.

Mr. HAYNES. It is not entirely clear to me either, but I would have to say I cannot offer an opinion on that without studying it a little bit further.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman MANZULLO. Did you have a concluding question, Dr. Christensen?

Ms. CHRISTENSEN. A concluding question? Oh, my goodness. Okay.

I just wanted to point out before I asked the question that several respected research organizations, nonpartisan ones—Urban Institute, Mercer Consulting, Lewin Group—and the Congressional Budget Office have concluded that AHPs will cause premiums to increase for most small firms while doing nothing to help the uninsured. As a matter of fact, our own Congressional Budget Office found that 75 percent of small employers would see their premiums increase under AHPs.

I have a couple of questions. Let me see which one I want to ask. Let me ask a question about the HSAs. As I read about HSAs, to me they give just a semblance of coverage. I do not see where they really improve coverage because the process sets aside funding because of the high deductibles. People would naturally reduce utilization of health services because of the high deductible and what they have to pay.

What appears that would happen under health savings accounts is that people would reduce the utilization of needed services and end up having to go to services sicker, thus continuing to increase the cost of health care.

As I look at what has been developing, if I am reading this correctly, with HSAs, now realizing that those high deductibles make it very difficult for persons to access health care, and I hope, Mr. Shalek, that your son and children stay healthy. I do not know what their deductible is, but the high deductibles are unaffordable to many people and so now there are gap coverages that cover the deductible.

HSAs were so great that the premiums were lowered, but now we have to come up with a second insurance to cover the high deductibles; the gap coverage. Does that not just put us back in the same place?

Mr. SHALEK. Not necessarily. What we are finding is consumers are becoming more educated in the actual cost and benefits of health care. People that have run to the doctors because they saw ads on TV for these prescription drugs that cost \$150 are now, if they need it, looking at alternatives such as generics that might only cost them \$10.

They are becoming more informed and educated on their own health care. They are asking questions of doctors. Why do I need this MRI? Would an x-ray not cover it? So it is educating the public right now, number one, and if you compute the cost of a traditional health care plan to the cost of an HSA and put the money away into a savings account, even if you had claims, your cost comes out less.

Ms. CHRISTENSEN. Beyond that the way it is set up. Older, poorer, sicker individuals who either do not make enough to benefit from the tax incentives or cannot afford the high out-of-pocket costs will remain in a traditional low deductible insurance plans, and both AHPs and HSAs as I see it will appear to me to be proposals that drive up the cost of health care.

For those sicker people, the people that, I as Chair of the Health Braintrust, advocate on behalf of, in the final analysis, unless everyone has access to quality health care, the solutions that may seem like quick solutions that are before us today will probably just make the situation worse in the long run for everyone.

Chairman MANZULLO. Will the gentlelady yield for a question?

Ms. CHRISTENSEN. Sure.

Chairman MANZULLO. Dr. Christensen, is it your concern that when people set up the HSAs if their income is modest that they will not have enough money to put into the plan in the first place and to use those dollars to take them up to the deductible?

Ms. CHRISTENSEN. Some. You know, the fact is you have low premiums, but if you get sick some will find themselves unable to meet the deductible. Others, because it is their health savings account, they will try to save money by not going to the doctor.

To me that is just human behavior. They will get to the doctor. Some will not be able to benefit from the tax deductibles either.

Chairman MANZULLO. Okay. Were you done with your questions?

Ms. CHRISTENSEN. Pretty much, I guess.

Chairman MANZULLO. Go ahead.

Ms. CHRISTENSEN. Well, I have one other question about the barriers that the states put up, and I guess I would go to Mr. Haynes?

Mr. HAYNES. Yes.

Ms. CHRISTENSEN. Yes, but anyone could answer. Several of the testimonies, and I know I was not here for most of them, but I really tried to read them last night and this morning. State protections impede the ability to offer coverage to the members.

What are some of the state protections that you think are problematic besides the benefit mandates? I do not think we should lower the quality of services that people are eligible for.

Do you support allowing AHPs to be exempt from state rating laws that limit how much insurers can raise rates when an employee gets sick or that they be exempt from state external review laws? What are some of the areas where you feel that the state protections impede the ability to offer coverage to members?

Mr. HAYNES. If I could respond to that, I do not know if it is specific forms of state regulations. It is the complexity associated with all the variations that I think are the core of the problem. One state wants you to do it one way. Another state wants you to do it another way. It is the complexity that it has caused.

I think what the AHP legislation tries to do is let us have a uniform set of regulations administered by the Department of Labor that deals with some of the issues that you mentioned, Dr. Christensen, but does it in a way that makes it administratively feasible and possible for an AHP to exist across a number of different states.

As I see it, that is what the legislation is seeking to do, not specifically to, you know, eliminate specific regulations that might exist at the state or specific mandates.

The point that I would make relative to mandates is, as I said, the complexity of dealing with all the different state mandates is what I am told is the barrier to us doing a multi-state pool program the way we used to. I think there are some state regulations that eliminate the possibilities of doing self-funded programs, self-insured programs, which I think are a very important asset that association plans need in order to create more competition.

The reality is that what is happening, as I said, is some of these small bottlers and their employees simply have no coverage, so as opposed to the system that we are proposing where there would be more people with coverage, that there might be some specific coverage mandates that would not be applicable and some specific coverages, we at least have people insured who are not currently insured. I think that is a benefit.

Beyond that, our particular program that we have with the larger employers does comply with all mandates, so everybody in our existing program, you know, all those mandates are being complied with.

Chairman MANZULLO. We appreciate your coming here. I want to go out and get a can of Coke. There you are.

Thank you so much for your patience and coming back after our vote and continuing to research, continuing to try to find a way, as Congresswoman Velazquez says, to get both houses to agree on some major reforms. Thank you for your participation.

The hearing is adjourned.

[Whereupon, at 4:33 p.m. the Committee was adjourned.]

House Small Business Committee
"Prescriptions for Health Care"
March 2, 2005
311 Cannon
2:00 pm

Opening Statement
Chairman Donald A. Manzullo

Good Afternoon. It is my pleasure to welcome everyone to today's Small Business Committee hearing on the critical issue of small business access and alternatives to health care. The hearing will serve as a forum to discuss and promote innovative solutions to help small businesses meet their health care needs.

Year after year, small business owners rate access and affordability of health care is the most important issue facing them. Affordability is always the major concern for small employers and the self-employed.

Exorbitant health care costs are one of the biggest expenses small businesses and the self-employed incur as they struggle to provide coverage for their employees. The ability to offer affordable health care to employees is a competitiveness issue for many small businesses as they seek to attract and retain the best employees.

Small business owners are unable to absorb spiraling health care costs and find themselves priced out of the health insurance market. Many owners are faced with the choice of staying in business or providing their employees with insurance.

Our current health care system does not provide equal access to affordable and quality healthcare for small businesses.

As Congress continues to examine our nation's health care problems, we need to remember that 60 percent of the estimated 45 million uninsured are small business owners, their employees and families. According to the Kaiser Family Foundation only 63 percent of small firms offer health insurance.

I was very heartened to see President Bush at the forefront of this issue. The President is aware of the health care access and affordability problems facing small business, and his plan includes concrete steps to increase health security for employees of small businesses.

Congress needs to ensure that there are many different health insurance options for small business owners to utilize. We need to help our businesses attract and keep employees, and nothing helps more than the ability to provide health insurance.

Association Health Plans or AHPs have passed the House in the 107th Congress and the 108th Congress, but has stalled in the Senate. AHPs allow small businesses to band together to purchase health insurance in the same way that large corporations or labor unions do.

Health Savings Accounts (HSAs) became law in the last Congress. HSAs allow individuals to set aside tax-free savings in Health Savings Accounts for a lifetime of healthcare needs. I believe that these tax-free savings accounts will encourage workers to plan and save and allow people to be in charge of their own health care decisions.

Self-employed workers pay their full 15.3 percent payroll tax for Social Security and Medicare on top of their individual income tax. In recent years, Congress passed legislation allowing them to deduct their health care expenses from their individual income tax.

Self-employed workers pay their full 15.3 percent payroll tax for Social Security and Medicare on top of their individual income tax. In recent years, Congress passed legislation allowing them to deduct their health care expenses from their individual income tax.

There are other tax credits and additional ideas that we will hear more about.

I look forward to the testimony of all the witnesses here this morning and I turn to my colleague, the Ranking Member for her opening statement.

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
108th Congress
Committee on Small Business
2501 Rayburn House Office Building
Washington, DC 20515-6515

STATEMENT

of the

Honorable Nydia M. Velázquez, Ranking Democratic Member
House Committee on Small Business
Full Committee Hearing: Prescription for Health Care Solutions
Wednesday March 2, 2005

The number one challenge facing our nation's small businesses today is their ability to access affordable health care. All one needs to do is look at the numbers to see the effect that rising healthcare costs are having on small businesses. These costs have consistently risen by double digits – 11 percent in 2002, 13 percent in 2003 and by 12 percent in 2004 – adding up to an increase of 60 percent over the past five years.

Clearly, we have a healthcare crisis that needs to be addressed. There is no question that there is a growing insurance gap between Corporate America and small business. Large businesses have a coverage rate approaching a healthy 90 percent for employer-based health insurance, while small firms have a coverage rate of only 50 percent.

In addition, small firms can expect to pay up to 30 percent more for similar policies offered to their larger counterparts. The truth is that 6 out of every 10 uninsured Americans are in families headed by self-employed workers, or small business employees. This is simply unacceptable.

While it seems that many recognize the problem, and acknowledge that small businesses need access to health care – they have been long on talk and short on action when it comes to providing the solutions to affordable health care.

Since 2001, President Bush has repeatedly talked about allowing small businesses to band together to purchase health care through Association Health Plans (AHPs).

This is a common sense solution that has been around long before President Bush took office. In fact, AHPs passed three times in the past four years with overwhelming bipartisan support. My question is – will AHPs actually pass into law in the 109th Congress, or will this be another Congress that goes down promising a lot and delivering little?

Despite the constant touting of the importance of AHPs, no efforts have been made to move it forward or to offer any pressure.

We have seen in the past that when President Bush really wants to move something forward he can – as he showed us two years ago with his prescription drug plan. The reality is that the Republican Party controls the White House, and both the Senate and the House – and if they want to get this done, it can get done.

The logical first step would be for the president to pick up the phone, and call Senator Frist to get a commitment from the Majority Leader that this legislation will be brought to the floor no later than mid-summer. That is the least that can be done.

Sadly, the healthcare reforms that have passed have fallen vastly short of closing the national gap on insurance. The most significant change has been the Health Savings Accounts (HSAs), which claimed to help small firms. However, with health care costs on the rise, HSAs have not addressed this crisis.

A recent study by the Kaiser foundation found that only five percent of small firms are seriously looking into offering HSAs next year, versus thirty percent of large firms. Despite the fact that HSAs are a friendlier option for large businesses – they are being sold as a solution for small firms. The reality is that small businesses see little benefit from HSAs.

Protecting small businesses and the self-employed should be a top priority, but unfortunately health care costs are only continuing to sky rocket. Promises have been made on how they plan to attack this crisis – but at some point this talk needs to stop, and some action needs to be taken.

This crisis has been going on for too long now. We need to end the back and forth, and start taking steps forward to implement a solution that will actually help small business owners. As the economic engines of this country – small businesses deserve to be confident in their ability to provide health care for themselves and their families.

Congress of the United States
House of Representatives
Washington, DC 20515-1303

Statement of Congressman Daniel Lipinski
House Committee on Small Business
Hearing on 'Prescriptions for Health Care Solutions'
March 2, 2005

Thank you, Mr. Chairman.

In 2003, 45 million Americans had no health insurance, an increase of 1.4 million people compared to 2002, and a continuation of recent trends. Of these 45 million, more than 80 percent hold jobs and work year-round, mostly in small businesses. The problem is that they are not poor enough to qualify for Medicaid, but too poor to buy health insurance on their own, if their employer does not provide it. Congressman Mark Kennedy and I have introduced H.R. 756, the Fair Care for the Uninsured Act, which would provide greater equity, access, portability, and choice for those who are left behind in today's system. It will also create a marketplace where individuals and families can choose a plan that best meets their needs.

The Fair Care for the Uninsured Act of 2005 would create a new tax credit for the purchase of private health insurance, specifically for uninsured workers who do not have access to an employer-based health plan. This way insurance will become more affordable, more people will become insured and consumers will have more choice and control. The tax credit would be \$1,000 for an individual or up to \$3,000 per family.

Giving more individuals an opportunity to purchase health insurance is not only beneficial to them, but it is better for insured Americans as well. Families who cannot afford health insurance often have no other health care option than the hospital emergency room. The cost of an emergency visit is 3-4 times more expensive than the cost of a regular office visit and when the uninsured turn up in the emergency room, they usually cannot pay for the care they receive.

As a diabetic, I know the importance of utilizing preventive services and getting proper treatment for even minor problems. Unfortunately, most uninsured people delay care for minor problems until they become major ones. In fact, uninsured diabetics are up to 11 times more likely than their insured counterparts to require emergency hospitalization that could have been avoided with proper medication. Ultimately, these costs are paid by taxpayers in the form of higher taxes and paid by the insured in the form of higher premiums. By making health care more affordable for uninsured Americans, we are making it more affordable for everyone.

Additionally, a lack of access to affordable health insurance disproportionately affects America's large and growing Hispanic community. According to the U.S. Census Bureau, over one third, or 34.2 percent of Hispanics were uninsured, compared to only 12 percent of non-Hispanic whites. Only 38 percent of Hispanics working in small-to-medium size companies have health insurance compared to 63 percent for white workers. Most Hispanic workers are heavily concentrated in the service industry and in small businesses, working for firms that do not or cannot offer them health insurance coverage, therefore, they are disproportionately found outside the normal channels of health insurance in this country. For these hard working Americans, Fair Care will make insurance more affordable and help alleviate their fears of a medical crisis.

Some might argue that this legislation interferes with the employer-based health care system. However, under Fair Care, only persons who do not have access to workplace health coverage qualify for the tax credit. Furthermore, the legislation includes worker protections requiring employers to continue their health plans during the first five years after enactment.

H.R. 765 recognizes the importance of the health insurance Safety Nets that already exist in 32 states, such as the CHIP plan in Illinois, for those who are otherwise uninsurable. Fair Care builds upon the success of these programs for older, less healthy Americans by expanding them to all fifty states.

It's time to do something concrete to improve Americans' access to health care and Fair Care is a common sense, bipartisan piece of legislation, that would enable more Americans access to affordable health insurance. I would like to thank the Chairman for the opportunity to speak on this legislation, and I look forward to hearing the testimony of our witnesses regarding their ideas for addressing our crisis in health care.



STEVE KING

MEMBER OF CONGRESS, 5TH DISTRICT, IOWA
1432 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

TESTIMONY BEFORE THE COMMITTEE ON SMALL
BUSINESS, U.S. HOUSE OF REPRESENTATIVES

STATEMENT BY
U.S. Representative Steve King
5TH DISTRICT IOWA

PRESCRIPTIONS FOR HEALTH CARE: SOLUTIONS TO THE PROBLEM

Wednesday, March 2, 2005 at 2:00PM

Statement of U.S. Rep. Steve King

Thank you, Mr. Chairman, for the opportunity to testify before the House Small Business Committee regarding the worsening health care crisis that faces our country, as the small business community is among the hardest hit. I commend Chairman Manzullo and Ranking Member Velazquez for your outstanding leadership in holding this hearing to discuss access to affordable, high quality health care benefits for small and mid-sized businesses.

Mr. Chairman, health care costs are escalating, and there are few options for small business owners to choose from when selecting insurance coverage for their employees. In order to keep and attract talented workers, sourcing affordable, quality health insurance is a top concern. As an owner/operator of a small construction business for over 28 years, I am well aware that the largest challenges here are access and cost. Even though small business is the backbone of our American economy, over 60 percent of the estimated 43 million people without health care are small business owners, employees and both their dependents. Additionally, small businesses, which create two out of every three new jobs in this country, continue to struggle with the high cost of offering health insurance to their employees.

The structure of the current health care industry does not allow many small business owners and their employees access to affordable health insurance. As a result, uninsured figures continue to rise as the cost of insurance continues to skyrocket, pricing most small businesses out of the marketplace.

Many factors contribute to the overall cost of health care. Lack of competition in the small group market, litigation, and mandates are just some of the many culprits driving up costs. The problems facing small business owners, their employees, and families must be addressed as part of the overall health care debate. I support Health Savings Accounts, recently enacted under the Medicare Modernization Act, coupled with a high-deductible health care plan, as a way for small businesses and individuals to lower their health care premiums. Along with HSAs, individuals should be allowed to deduct 100 percent of their high deductible health plan premiums, if they are not subsidized by an employer plan already. I recently introduced a bill, the Health Insurance Affordability Act - H.R. 37, which would allow for this.

Currently, large businesses are allowed to deduct employee health insurance premium payments as a business expense. Unfortunately, employees of small businesses that cannot afford to provide health coverage are not able to deduct the cost of health insurance. This group of people includes waitresses in diners, workers in the dry cleaners shop, and temporary workers, to name a few. With the rising cost of health care coverage, many of the nation's small employers are dropping coverage, which increases the number of uninsured Americans.

In his 2004 State of the Union address, President Bush proposed “that individuals who buy catastrophic health care coverage, as part of our new health savings accounts, be allowed to deduct 100 percent of the premiums from their taxes.” President Bush’s budget for Fiscal Year 2005 requested an “*Above-the-Line Deduction for Certain Health Insurance Premiums*. Under this proposal, all individuals who purchase a high-deductible health plan in conjunction with a health savings account would be allowed to deduct the amount of the health plan’s premium from their taxable income even if they do not itemize their deductions. This new deduction would make high-deductible health plans more affordable.”

We should follow the President’s lead and continue to promote personal health care ownership and control. H.R. 37 provides an above-the-line tax deduction of the health insurance premiums for those who buy their own HSA plan. Several HSA providers report that a high number of previously uninsured individuals are buying HSAs in the individual market. By allowing these and other consumers to deduct the premiums, we are building on the benefits of HSAs and will make health insurance affordable for America’s uninsured population.

HSAs will also help reduce the number of uninsured Americans by allowing small businesses more choice in the current small group market. Additionally, individuals who have catastrophic health care coverage with a health savings account should be allowed to deduct 100 percent of the premiums from their taxes. HSAs, along with 100 percent deductibility, will provide small businesses with more accessible, affordable options in the health insurance market.

A government-run health care system is not the solution to the health care problems facing small businesses. A government-run health care system or mandates and minimum benefit packages forced upon small employers will detour or even destroy entrepreneurship and growth of small businesses. The longer we delay, the more we will hear the calls for government-provided health care. Certainly, that is not a solution but an impetus to future problems.

Thank you again for holding this hearing that continues the discussion on how to solve the health care plight of the uninsured.



**TESTIMONY
BEFORE THE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES**

STATEMENT BY

Michael J. O'Grady, Ph.D.
Assistant Secretary for Planning and Evaluation

U.S. Department of Health and Human Services

**For release on
Wednesday, March 2, 2005
at 2:00PM**

Good morning Mr. Chairman, members of the Committee, I am Michael J. O'Grady, the Assistant Secretary for Planning and Evaluation at the Department of Health and Human Services (HHS). I am honored to be here today to discuss the President's proposals for making health care more affordable, and to highlight how small businesses and their employees can benefit from these proposals.

As you know, small business is the engine that drives our nation's economy. Small firms with fewer than 500 workers, the definition used by the Small Business Administration (SBA), employ 50 percent of all private sector employees. And according to the SBA, small firms generated 60 to 80 percent of the net new jobs annually over the last decade. Unfortunately, the strength of small business is being directly affected by escalating health care costs and health insurance premiums. Small businesses and their employees need help.

Impact of Health Care Costs on Small Business

Health care insurance premiums continue to increase at levels above general inflation and above the rate of increase in wages. Health insurance is more expensive and the costs are more volatile for small firms as compared to larger firms. From 2003 to 2004, premiums increased by 11.2 percent for all firms, but for very small firms, those with 3 to 24 workers, they saw their premiums increase by 13.6 percent.

The escalating costs of premiums are forcing many small business owners to make tough choices. According to research on employer benefits (Kaiser/HRET), for firms that offer coverage, many have had to reduce their contributions towards their employees' health premiums. Other small business owners have had to make the difficult decision to drop coverage. Fifty-two percent of small firms with fewer than 10 workers offer health insurance, compared to 74 percent of small firms with between 10 and 24 workers, and 99 percent of all large firms. Because of rising premiums, the offer rate of small firms has decreased from 58 percent in 2001 to 52 percent today. Geographic regions and industries particularly hard hit with larger than average increases in premiums are the West and Midwest and industries such as manufacturing, transportation, communications and retail.

Because of the high cost and volatility of health insurance premiums, workers in small firms are not only less likely to have health insurance offered to them as compared to those employed by large firms, they are also less likely to be able to afford to buy it if it is offered. Workers in small firms with fewer than 10 employees have uninsured rates of 30 percent. This compares to uninsured rates of 11 to 12 percent for workers employed by large firms with 500 or more employees.

The President is committed to driving down the costs of health insurance for small business owners and their employees, who are disproportionately affected by the high costs of health insurance. The Congress and the President have already taken a first step in making coverage more affordable by enacting legislation that created Health Savings Accounts.

Administration's Accomplishments: Health Savings Accounts

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003 created Health Savings Accounts (HSAs), which are used in conjunction with high deductible health plans (HDHPs) to provide individuals with more choice, greater individual control over health care, individual ownership and lower health insurance premiums. Employer-sponsored HDHPs, which provide coverage for major medical expenses, and HSA contributions and withdrawals, which are used to pay for other eligible medical expenses, are tax-free. HSAs, combined with HDHPs, provide a much more affordable, consumer-friendly product for businesses to offer their employees. The National Federation of Independent Businesses (NFIB) reports that some small businesses have saved up to 42 percent on their health care costs through these products.

Employer contributions to HSAs are deductible from employer income and excluded from employee income for income tax and employment tax purposes. Individual contributions to HSAs are deductible in computing individual adjusted gross income. Contributions to an HSA may be made when the individual is covered under an HSA-eligible HDHP. The maximum annual contribution to an HSA is the amount of the deductible up to an indexed statutory limit of \$2,650 for single coverage and \$5,250 for family coverage in 2005. In 2005, the minimum HDHP deductible is \$1,000 for single coverage and \$2,000 for family coverage and the maximum out-of-pocket costs for a qualifying HDHP is \$5,100 for single coverage and \$10,200 for family coverage.

HSAs are portable from one employer to another and unused funds can be carried over from one year to the next to pay for future medical expenses. This allows HSA owners to accumulate

savings to offset medical expenses as they age and when they may need it most. In addition to HSAs, the President is proposing other measures to bring affordable health care coverage to more Americans.

Administration's Proposals

The President's FY 2006 budget outlines a strong set of proposals to make coverage more affordable and available for small businesses and the uninsured. The President's budget invests \$125.7 billion over 10 years to expand insurance coverage to millions of Americans through tax credits, state purchasing pools, tax deductions, and rebates to small employers contributing to HSAs. These investments are in addition to the President's other health care proposals including Association Health Plans, medical liability reform, and the 'Cover the Kids' campaign that will also help expand coverage and reduce health care costs. Taken together, we estimate that 8 to 10 million additional people will gain health insurance over the next ten years, and many of these individuals work for small employers.

Small Employer Tax Credit for Contributions to Employees' HSAs

Nearly one half of the uninsured are small business employees and their dependents. To help these workers and their families, the Administration has proposed providing \$19.2 billion (over 10 years) in tax incentives to small business owners to offer HSAs, linked to HDHPs for their employees. The proposal would create a subsidy in the form of a refundable credit to small nongovernmental, for-profit employers for contributions made to HSAs owned by their

employees. A small employer would be defined as an employer that normally employs fewer than 100 employees on a typical business day. Sole proprietors, partners and S-corporation shareholders would be eligible for the credit to the extent their business is a small employer. Refundable tax credits of up to \$200 for employer contributions to an HSA for single coverage and \$500 for family coverage would be available under this program. In order to receive the credit, the employer would be required to maintain a high-deductible health plan accessible to all employees, but the employer would not be required to make contributions toward employees' premiums. The tax credit would not be included in employer income and would not be subject to general business tax credit rules. This proposal targets small business and relies on private market forces - - making consumers more cost conscious and more likely to spend health care resources wisely.

Provide an Above-the-Line Deduction for High Deductible Insurance Plans

In addition to the small employer tax credit, the President's budget includes a \$28.5 billion tax incentive (over 10 years) to make HDHPs more affordable. Under current law, individuals who purchase their own health insurance do not receive the same tax-favored treatment on their health insurance premiums as do employees who receive insurance through their employer. An individual purchasing insurance on their own may claim an itemized deduction for premiums only to the extent that premiums, when combined with other unreimbursed medical care expenses, exceed 7.5 percent of adjusted gross income (AGI). On the other hand, employees in firms that offer health insurance may pay their share of health insurance premiums on a pre-tax basis.

In order to level the playing field and encourage the purchase of health care coverage through HDHPs, the Administration has proposed an above-the-line deduction for premiums paid by individuals to purchase an HSA-eligible HDHP. Both the contributions made to an HSA (as under current law) and the premium paid to purchase the HDHP would be eligible for an above-the-line deduction.

Tax Credits to Purchase Health Insurance

Over half of the uninsured have incomes below 200 percent of the poverty line, and many of these persons are not eligible for employer coverage or public insurance. The Administration proposes to invest \$74 billion over 10 years to provide a refundable tax credit that will help these individuals directly purchase health insurance. Individuals under age 65 who are not enrolled in public or employer sponsored health plans would be eligible. The credit would be refundable and could be paid in advance directly to the health plan.

This health insurance tax credit would pay for 90 percent of the cost of standard coverage, with a credit of up to \$1,000 per adult and \$500 per child for up to two children. Under the President's proposal, eligible families with two or more children and incomes up to \$25,000 could receive up to \$3,000 in credits to cover as much as 90 percent of the costs of purchasing health insurance. The credit phases out for families with incomes of \$60,000. Eligible individuals earning up to \$15,000 annually would receive up to a \$1,000 tax credit, with the credit phasing

out at an income of \$30,000. Since the credits are refundable, they are available for those with limited or zero tax liability.

A modification to the health insurance tax credit introduced this year would allow individuals to use a portion of the credit to purchase a high deductible health plan while putting the remaining portion of the credit into an HSA. The President has proposed giving low-income families up to a \$1,000 contribution made directly to an HSA, while using the remaining \$2,000 refundable tax credit to help purchase a HDHP. Low-income individuals could receive up to a \$300 contribution made directly to an HSA and \$700 to purchase a HDHP. The money in the HSA belongs to the individual and can be used to pay for medical expenses while unspent funds can be used to pay for out of pocket medical costs in succeeding years. It provides greater choice and affordability of insurance products and encourages saving for future medical expenses.

These proposals will provide choices and subsidies to lower-income working families who must currently purchase expensive, non-employer health insurance. The credit will significantly increase participation in non-group health insurance markets, but not come at the expense of employer group markets.

State Purchasing Pools

In order to facilitate the use of the tax credit, the President has proposed \$4 billion (over 10 years) in grants to encourage states to create insurance pools to ensure low-income Americans get the most out of the tax credit. States could provide the power of group purchasing through

state-sponsored purchasing pools as the refundable tax credits would allow individuals to directly reduce their monthly premium payments. Options for these arrangements could include state employee purchasing pools or state high risk pools. The health credits could also be used in privately-sponsored non-employer health insurance purchasing groups.

Association Health Plans

In addition to the different tax proposals, the President also supports legislation that provides for the creation of Association Health Plans (AHP). AHPs enable small employers and others to provide better and more affordable health care coverage options for their employees, like those that many large employers and labor unions can offer. AHPs would allow bona-fide business or professional associations and other groups that have existed for at least three years for purposes other than providing health benefits to pool their members together to purchase health coverage.

Of particular interest to small business is that AHPs will allow small businesses to band together to purchase more affordable health insurance. AHPs will make health coverage more accessible and affordable by creating a level playing field for small business through greater bargaining power and administrative efficiencies. By grouping small employers together to purchase coverage, AHPs will be able to act more like large employers and labor unions and offer lower cost coverage to employers, employees and their families. The Congressional Budget Office (CBO) estimates that AHPs would allow small business to enjoy premium reductions of 13 percent on average with a range of between nine percent and 25 percent.

AHPs help spread risk and reduce the volatility of premiums for individual small businesses, particularly those whose employees may face high costs in a given year. AHPs will help ensure that small employers will not be denied insurance coverage or be priced out of the market due to the health of their employees. In fact, AHPs would generally be prohibited from setting premium rates based on health status, severely restricting AHPs' ability to engage in favorable risk selection, or so-called "cherry-picking." The Department of Labor would have to certify that an AHP meets strong standards to prevent fraud and protect consumers before the AHP could offer benefits to a single worker. The Administration supports measures to prevent companies from 'cherry-picking' the healthiest populations of workers.

Critics of AHPs suggest that these plans would not be subject to state insurance regulations. They also suggest that fraudulent activity is more likely, and that associations will not have adequate reserves, leaving enrollees without their claims being paid. To address these criticisms, current proposals would leave major elements of state insurance regulation, such as solvency and other consumer protections, in place for insured plans, and add a national certification and oversight process. Strong Federal certification and new solvency standards for self-insured plans will assure that all healthcare benefits promised by the new AHPs would be there when needed, and designing and offering requirements will assure that the associations provide consistent services to all eligible small businesses regardless of their expected medical costs. Just as large employers and unions are able to offer the same health plan to their workers and members regardless of which state they live in, AHPs will allow small businesses to join together across state lines to purchase uniform health benefits. Small employers will be able to achieve greater purchasing power, administrative efficiencies, and flexibility in benefit design. An additional

aspect of this proposal is the extension of AHPs to civic and community organizations allowing them to provide, through negotiation, the same low priced health insurance to their members as large organizations.

Other Proposals to Increase Access to Affordable Health Care Coverage and Services

Other proposals the President has advanced to increase access to affordable health care coverage and services include building on our aggressive efforts to help those who are uninsured or underinsured by expanding the good work of community health centers. These centers provide quality, compassionate care to the patients who need help the most, regardless of their ability to pay. The FY 2006 budget request completes the President's commitment to create 1,200 new or expanded health center sites to serve an additional 6.1 million people by 2006. The request also takes the first step towards a new goal of helping every poor county in America that lacks a community health center and can support one.

The "Cover the Kids Campaign" will launch an aggressive, billion-dollar effort to enroll thousands of eligible children around the nation who are not currently enrolled in quality health care coverage through SCHIP and Medicaid. It will combine the outreach efforts of the Federal government, states, and community organizations, including faith-based organizations, to enroll more SCHIP and Medicaid-eligible children into these programs. By reaching families during the course of their everyday lives, and through their friends and neighbors, we stand a better chance of getting their children registered for health coverage.

The President is also proposing to create a 'national marketplace' for individual insurance products, which would allow individuals to buy the best coverage they can find anywhere in the country. This would enable individuals to get the best buy on the health coverage that best meets their individual needs. The President believes that creating a competitive marketplace across state lines can increase the availability of health care coverage and help drive down the costs for everyone.

In addition, the President believes we need to reform the medical liability system. Medical liability reform will limit frivolous lawsuits and excessive jury awards and will make health care more affordable and accessible for all Americans. The President is urging Congress to pass legislation that reduces the burden that frivolous lawsuits have on our economy. Lawsuits and excessive jury awards are driving many health care providers out of communities and forcing doctors to practice defensive medicine. The framework for addressing the medical liability crises includes securing the ability of injured patients to get quick unlimited compensation for their economic losses and ensuring recoveries for non-economic damages do not exceed a reasonable amount.

Conclusion

As I have just outlined, the Administration has an ambitious agenda to drive down health care costs and make insurance coverage more affordable for all Americans and for small business. In FY 2006, the President proposes to spend more than \$125 billion over ten years to expand insurance coverage to millions of Americans through tax credits, purchasing pools, HSAs and

other programs that I have summarized. I am happy to answer any questions you may have.

Thank you.

Notes:

Data on premium trends comes from the *Employer Health Benefits, 2004* survey conducted by the Kaiser Family Foundation and Health Research and Educational Trust.

Data on the uninsured are taken from the U.S. Census Bureau's *Current Population Survey, 2004*.

The Coca-Cola Bottlers' Association

Statement of W. Thomas Haynes

Executive Director, The Coca-Cola Bottlers' Association

On Behalf of

The Association Healthcare Coalition

House Committee on Small Business

"Prescriptions for Health Care Solutions"

March 2, 2005

Thank you, Mr. Chairman, for the opportunity to testify before the House Small Business Committee to discuss policy solutions aimed at providing small businesses and their employees with access to affordable health insurance. I am appearing today as Executive Director of the Coca-Cola Bottlers' Association (CCBA), which represents 77 bottlers and 87,000 employees in all 50 states. I also am appearing as President of The Association Healthcare Coalition (TAHC), a coalition of bona fide trade and professional associations that have many years of experience in operating Association Health Plans (AHPs).

I first want to commend Chairman Manzullo and Ranking Member Velazquez for your outstanding leadership in promoting policies which provide small and mid-sized businesses with access to affordable, high quality health care benefits. Enacting legislation to prevent the problem of skyrocketing health insurance premiums for small businesses is a top priority for our members, as it is for millions of other small businesses nationwide. As such, this hearing to review potential solutions to this difficult problem is very timely.

The CCBA and TAHC strongly support H.R. 525, the Small Business Health Fairness Act, which would strengthen and expand the ability of bona fide associations to deliver affordable health care benefits to small businesses through the sponsorship of Association Health Plans (AHPs). We view H.R. 525 as a critical component of any federal policy changes aimed at expanding access to affordable health coverage for small businesses and reducing the nation's uninsured population, and we urge Congress to enact the legislation in 2005. I want to especially commend Chairman Manzullo, Ranking Member Velazquez and the other members of the committee for cosponsoring this legislation. We also want to commend President Bush and Secretary of Labor Chao for their leadership on behalf of the AHP legislation.

The Coca-Cola Bottlers' Association

H.R. 525 is vital to the ability of small and medium-sized businesses across the nation to obtain access to affordable health insurance. Today, I would like to discuss our experience at the CCBA with an Association Health Plan in order to illustrate how H.R. 525 can expand access to affordable health benefits to small employers, and how workers in small businesses are put at a great disadvantage to their counterparts working for large employers in today's markets. Our Association's experience represents a living example of the disparities created by the current system.

Coca-Cola Bottlers' Association AHP

For 90 years, the CCBA has sponsored programs for our member bottlers. For most of that period, medical and other benefit programs have been one of our core offerings. We have historically administered two separate AHP plans: a fully-pooled program for small bottlers under 100 employees; and another experience rated program for those bottlers with over 100 employees.

Until recently, CCBA's AHP was able to significantly reduce the cost of insurance by combining over 60 small employers who participated in our fully pooled program with administrative costs of approximately 7%. This fully-pooled program for small employers (under 100 employees) was disbanded at the end of 2000 due to the overwhelming complexity of state small group reform laws and regulations. These well-meaning but counterproductive laws eliminated virtually all insurance companies from participating in multi-state arrangements due to their reluctance to navigate the myriad individual state premium and coverage requirements for small employers. Since then, health insurance premiums for our smaller member bottlers have increased between 20% to 25% annually. Further, their plan offerings have increasingly utilized higher copays, higher deductibles and higher annual out-of-pocket maximums. These changes have greatly reduced the employees' participation rates, effectively pricing 50% of the employees out of insurance and increasing the number of uninsured employees. Additionally, for those that remain insured, their quality of care has been negatively affected by changing insurance carriers annually, thereby forcing changes in covered providers associated with their new insurance carriers.

While CCBA was forced to disband our AHP for small employers, we have been able to continue operating the AHP for the benefit of our larger employer members (Coca-Cola bottlers with more than 100 employees). While our small employer members have incurred **20% to 25% annual** premium increases, our large employer members have been able to continue benefiting from the cost-saving efficiencies of participation in the CCBA AHP, with average annual premium increases of **9%**. Our large employer AHP program also provides stability of plan design offerings and long term carrier contracting that enables access to a consistent provider panel enabling fewer provider – patient disruptions.

This situation clearly illustrates the severe disadvantage that small employers face relative to large employers in obtaining affordable health insurance coverage. It should be noted that while we can and do continue to operate a multi-state AHP plan for large employers, this program will also benefit from H.R. 525. This proposal will enable more insurance companies

The Coca-Cola Bottlers' Association

to enter into a market where there are few options available today. Under today's regulatory environment, our large employer multi-state AHP program must be fully-insured. Given the ability to self-fund our program, as would be provided under H.R. 525, we would be able to provide custom PPO network solutions for specific non-participating large employers in geographic areas where our current insurance carrier is reluctant to pursue expanding their network. Our large employer AHP has the potential to expand from its current enrollment of 6,000 employees to upwards of 15,000 employees if we are allowed the same options as corporations and unions are today. Growth of this AHP program will enable us to have greater leverage in negotiating long-term, cost-stabilizing contracts with available vendors.

The CCBA now delivers high quality, affordable health care benefits to its large employer members through an Association Health Plan. There is no good reason why a bona fide association like CCBA, which has vast experience in providing employee benefit plans for 90 years, should not be able to offer similar health benefits to both our small and large employers under the same uniform federal regulations under which large corporations now operate.

With the passage of H.R. 525, the CCBA will again be able to provide health care benefits to over 60 small Coca-Cola bottlers through the AHP in which our large employers now participate. This would provide more affordable health benefits to thousands of workers! Moreover, without this legislation, our small bottlers will be forced to continue shifting costs to their employees, and even more may be forced to drop coverage altogether! Clearly Congress can not continue to allow this intolerable situation to continue!

Beyond the critical needs of our smaller bottlers and their employees for more affordable healthcare options, I want to emphasize that this issue is not just a dollars and cents issue, but a survival issue for small soft drink bottlers. Two decades ago, there were thousands of soft drink bottlers spread across the country. In part because of the effects of changes in operating efficiencies in soft drink production, but also because of the higher fixed costs of operating a small business, including benefits administration, ninety percent of those bottlers have disappeared through acquisitions by their larger, more efficient, brethren. CCBA's job is to do our best to allow the 75 non-public independent owners of Coca-Cola bottling operations to remain in business if they choose. The owners of those businesses, mostly fourth and fifth generation Coca-Cola families in places like Farmington, Maine, Deming, New Mexico, Pottsville, Pennsylvania, Sitka and Ketchikan, Alaska, and other communities look to us to help give them that option. For the most part, we have solved many of the operational challenges that caused many of their brethren to sell their business. Our biggest remaining challenge is to solve the problems associated with the disadvantages that they face in being small in providing competitive employee benefits, including health care. To solve that problem we need the help of Congress and this Committee to enact H.R. 525 into law.

The Role of Associations in Health Care Benefits

Bona fide trade and professional associations are established and run by their employer members and exist for the sole purpose of serving the needs of their members and members' employees. Bona fide associations, including national, regional and state-based associations, have been a vital source of health coverage for millions of American workers employed in

The Coca-Cola Bottlers' Association

small businesses for decades. Many associations have been sponsoring health plans for over 50 years. It is critical to note that bona fide associations are organized for purposes *other than* selling health insurance, a critical distinction in the debate over the proper role of associations in health insurance.

Associations are uniquely structured to be part of our healthcare delivery system. Because they are established to represent their members in other areas, they possess the infrastructure, administrative mechanisms, and experience needed to unify employers and employees into effective consumers of health services. By serving this need for small employers, associations add value to our health care system as a whole, as well as to their members.

Associations are able to purchase affordable health coverage for pools of small employers because they offer health plans that are specifically designed to meet the health care needs of their membership. Associations offer a wide variety of approved health plans and managed care arrangements, both fully insured and self-funded. Health plans sponsored by bona fide associations have an outstanding track record in providing high quality health coverage to small businesses and their workers.

AHPs have already demonstrated the ability to provide savings in health insurance costs for small employers. Because they already exist for other purposes, associations are able to sponsor health plans with administrative costs that are substantially lower than similar costs charged by insurance companies when selling directly to a small employer. As indicated previously, our AHP at CCBA has administrative costs of approximately 7%. In contrast, a small employer on its own is likely to pay administrative costs of anywhere from 17% to 30% or even higher when purchasing coverage in the existing small group marketplace. The ability of AHPs to deliver health benefits with low administrative costs is extremely important to providing small employers with access to affordable health care benefits.

Unfortunately, the ability of associations to serve small businesses and their workers with affordable health benefits has severely declined in recent years. As inconsistent government mandates and regulations continue to proliferate at both the federal and state level, it is becoming more and more difficult for associations to provide affordable health benefits to their members. The regulation of AHPs on an inefficient, state-by-state basis thus jeopardizes the ability of AHPs to continue providing dependable and affordable health coverage to small businesses. In fact, many associations have had to close down their health plans because health insurance companies cannot afford the cost of compliance in multiple states. This has severely reduced the availability of AHPs for small businesses.

The Small Business Health Fairness Act

H.R. 525 will allow associations to utilize the tools which corporate and union plans now use to keep health coverage affordable. In contrast to the regulation of AHPs on an inefficient state-by-state basis, large corporate and union health plans are exempt from state insurance regulations and mandates. It is time that Congress provided workers in small businesses with

similar opportunities as are now afforded to their counterparts in large corporations and unions in the delivery of health benefits. By allowing AHPs sponsored by bona fide

associations to operate under a uniform regulatory structure like corporate and union health plans, small business workers will receive the benefits of economies of scale, greater bargaining power, regulatory uniformity, and the flexibility to design benefit options that meet working families' needs.

The AHP legislation is the *only* policy option that levels the playing field between small businesses and large corporations in offering affordable health benefits. In order for small employers to be able to compete successfully in the marketplace for quality workers, it is vital that they have access to similar health benefit options now available to large corporations.

Another important component of H.R. 525 is that it will foster greater competition in health insurance markets. Over the past decade, many insurance carriers have left many of the state small group insurance markets, and small employers have fewer choices of insurance carriers and fewer health plan choices. By facilitating the ability of associations to sponsor AHPs, H.R. 525 will provide small employers with more health plan options. This will ultimately bring about greater long-term price stability and reverse the current trends of skyrocketing health insurance premiums, declining benefits and fewer choices for small employers.

Finally, I would like to comment briefly with respect to some of the criticisms that have been made by opponents of the AHP legislation. Let me assure you that it is in the interest of bona fide associations for Congress to approve AHP legislation that 1) benefits workers of all types, both healthy and high risk individuals and groups; 2) has strong solvency protections for self-funded plans; and 3) has strong oversight by the U.S. Department of Labor. We believe this legislation can be positive for small employers and their workers, bona fide associations, and the insurance industry all working together in a partnership to expand access to affordable health benefits, and we have always been willing to work with members of Congress and other parties in "good faith" efforts to achieve this objective. Regrettably, we have not seen good faith efforts from some other parties to have such a dialogue to move the bill forward. However, we today renew our invitation to other parties to step forward and work with us *in good faith* to improve the legislation, not to merely block it.

Conclusion

H.R. 525 represents a market-oriented solution to the problem of declining access to affordable health benefits for our nation's small employers. CCBA and TAHC strongly urge Congress to expand access to affordable health insurance for working families by enacting this legislation. The time for elimination of the health insurance "double standard" for small businesses is long past due!

Again, we commend Chairman Manzullo and Ranking Member Velazquez for their support for H.R. 525, and look forward to working with you and other members to see that this legislation is enacted by the 108th Congress. Thank you this opportunity to discuss Association Health Plans.

Holly S. Roberts
544 S. Branch Street
Madison, IN 47250

When we moved to Indiana, I decided to become self-employed (an independent contractor) as an insurance agent / financial advisor. I went to work for a local insurance agency ("Madison Insurance Agency") primarily as their life and health agent. In doing so, I researched and learned about HSA's and how they can benefit people. I knew that the High Deductible Health Plan (HDHP) along with an HSA was right for my wife and me, so the first one I wrote was on us.

We chose it because the premiums are lower and we had already decided that we would basically "self-insure" ourselves for \$5,000 from our savings should we need to and use the actual health insurance coverage for something major or catastrophic. Actually, we were willing to do this even before knowing about HSA's. Once we discovered HSA's, it was an extra blessing. This plan became even better because now we get a tax break on something that we were planning to do anyway.

Three months ago I became a permanent, full-time employee at U.S. Filter in Madison, IN and was given the opportunity to participate in their group health insurance plan. The annual premium for my wife and me is \$7,604!!! The premium is the same for each employee regardless of their age, sex and lifestyle. The company does pay a large portion for us (and each employee) in the amount of \$5,666, but that leaves us paying our share of \$1,938 a year. Even though this amount is basically the same as the premium on our personal HDHP, we have decided to keep our personal plan and take advantage of our HSA.

This decision is for three reasons: First, we like to be self-sufficient and in control of our finances and decisions concerning things like insurance, etc. If I become un-employed or laid off, I would have to pay the full \$7,604 (plus 2%) under COBRA. Second, our contribution to the HSA helps lower the amount of our income thus lowering our taxes and increasing our savings. Third, it benefits U.S. Filter in that they do not have to pay \$5,666 towards my insurance.

As you know, the biggest problem with group health insurance is that everyone is accepted - the unhealthy as well as the healthy. That's why the premiums are so high. This can lead to "adverse selection" because the younger, healthier people bail out leaving the older, less-healthy people to make up the group. This naturally leads to more claim activity/payouts which leads to higher premiums. And the cycle just continues. Eventually employers and employees alike won't be able to afford it.

I am still a self-employed independent contractor working for Madison Insurance Agency, but only on a part-time basis now. However, I have been able to talk to quite a few people about HDHP's and HSA's. It seems that the self-employed are especially interested since they get a double tax break. They get to write off the actual insurance premiums they pay as well as their HSA contribution.

I realize that the U.S. government seems to be (and should be) encouraging its citizens to be more self-sufficient and take more control over their lives by taking advantage of IRA's (both traditional and Roth), college savings plans, etc. We are just thankful that HSA's are another tool that has been given to us to do just that.

Holly S. Roberts

**National Association for the Self-Employed**

NASE Legislative Offices • 1200 G Street, NW, Suite 800 • Washington, DC 20005
Phone: 202-466-2100 • Fax: 202-466-2123 • www.nase.org

Testimony of

**Robert Hughes, President of
The National Association for the Self-Employed**

**House Committee on Small Business
“Prescriptions for Health Care”**

March 2, 2005

On behalf of the National Association for the Self-Employed's 250,000 member businesses, representing over 600,000 owners and employees, we would like to thank Chairman Manzullo, Ranking Member Nydia Velazquez and the Members of the House Committee on Small Business for convening this hearing on a very important issue facing our nation's small business owners. The NASE is the nation's leading resource for the self-employed and micro-businesses, businesses with ten or less employees. Today, this vital segment of the small business population within our nation numbers more than 18 million. Micro-businesses are the drivers of America's economic engine, creating well over a third of all new jobs to the economy. The last U.S. Census reported that these firms employ more than 12.3 million workers with a total annual payroll of more than \$309 billion.

The chief impediment that micro-businesses and the self-employed are facing in this current economic climate is the ever-increasing costs of health coverage. The state of health care among the nation's self-employed and micro-businesses is critical. According to a June 2002 study released by the NASE entitled "Affordability in Health Care: Trends in American Micro-Business," seven in 10 micro-business owners report they do not provide any type of health care

"The nation's leading resource for micro-businesses and the self-employed"

coverage to eligible employees nor have coverage for themselves. Costs are cited as the chief reason for this trend. Participants in the study say the situation is worsening as health insurance premiums for micro-businesses are increasing at double-digit rates while insurance benefits and plan choices are decreasing.

Current Legislative Solutions

The NASE strongly supports legislative proposals such as Association Health Plans, health care tax credits, and deductibility of plans with HSAs to help increase access to and affordability of health care. We also strongly support removing current inequities in the tax code that make the purchase of health coverage more costly and a disincentive for the self-employed. Specifically, I speak of the current inability of sole proprietors to deduct the cost of their health insurance premiums from self-employment (FICA) taxes.

All employees who receive compensation from employers pay FICA taxes. FICA comprises Social Security (6.2 percent) and Medicare (1.45 percent) taxes. Employers are required to withhold from gross compensation 7.65 percent for FICA. In addition to the FICA withheld from the employee, the employer is required to “match” the FICA withholding. Therefore, the employee and employer contribution for FICA is 15.3 percent of compensation (subject to applicable annual limits).

The self-employed pay into the Social Security Fund at a rate equivalent to employees and employers. FICA tax for the self-employed is called “self-employment tax.” The self-employment tax is computed at the same rates (15.3 percent) as employee/employer FICA and is subject to the same annual limits.

The tax inequity faced by the self-employed when purchasing health insurance lies in the fact that Schedule C filers (sole-proprietors) and Schedule E filers (partners in partnerships with earned income and 2 percent owners in S Corporations) do not receive a “business deduction” for health insurance premiums. The premiums are not deducted for purposes of the self-employment tax and, accordingly, the sole proprietor(s), partners in partnerships and S corporation owners pay self-employment tax (15.3 percent on self-employment income up to \$86,000) on the insurance premiums. **The self-employed are the only segment of the business population that has to pay this extra tax on health insurance.**

C corporations, on the other hand, receive a deduction for health insurance premiums as an ordinary and necessary business expense for all employees including owners. Since the premiums paid for health insurance are not considered compensation to the employee or employee owner, they are not subject to FICA (Social Security and Medicare) taxes for either the employee or the employer.

While 100 percent deductibility of health insurance premiums has phased in, it does not solve this tax inequity. The self-employed are required to pay two types of taxes on their annual tax returns: income tax and self-employment tax. One hundred percent deductibility relates only to income tax and not self-employment tax. Thus, the self-employed still pay the 15.3 percent self-employment tax on their health insurance premiums.

According to the most recent Kaiser Family Foundation study, the self-employed pay on average \$9,950 for family health coverage. Because they cannot deduct this as an ordinary business expense, they are required to pay \$1,522.35 in additional costs that no other business entity must pay. This is money that our members tell us they would use to reinvest into their business, hire part-time assistance, or utilize to offset the rising premium costs they face each year so they may hold on to their coverage a little longer.

To achieve tax equity between all forms of business entities, the self-employed must receive exclusion of health insurance premiums from self-employment tax regardless of the entity form under which they choose to operate. Health insurance premiums of the self-employed should be deductible on Schedule C or E as an ordinary and necessary business expense rather than the deduction above the line on Form 1040. This issue is not only one of fairness but, in the current health care climate, the self-employed are disproportionately affected. Removing this extra tax on health insurance premiums would make health coverage slightly more affordable.

The NASE was successful in the 108th Congress, with the leadership and assistance of Chairman Manzullo and Rep. Velazquez, to introduce H.R. 1873, the Self-Employed Health Care Affordability Act, which removed this inequity in the tax code faced by our nation's self-employed. Our association is working with them and other key Members to reintroduce this legislation in the 109th Congress.

Larger Reform

The NASE and our members appreciate the current efforts of Congress to attempt to mitigate the cost burden and access difficulties that they face with health coverage. However, the NASE believes that the current legislative solutions are merely band aids on a larger problem and we support efforts to move towards a consumer-driven health care system.

Micro-business owners and the self-employed are involved in every aspect of their business. They are typically the CEO, accountant, human resource manager, administrative assistant and janitorial staff for their business. Yet, the way our current health care system is set up, business owners and individuals are observers rather than participants in their health care. Just as they do in every other aspect of their business, micro-business owners want to have access to essential information that will allow them to manage the complexity of our current system and take charge of their health care.

Transparency and access to information within our health care system would greatly assist micro-business owners and individuals in making cost effective, informed decisions regarding their health care. Currently, we go to our doctor's office for a visit, we pay a \$5, 10 or \$20 copay, and then we may get a bill in the mail that requires us to pay costs not covered by our provider. However, we never fully know the cost of the visit or what our provider paid out. With our technology today, there should be transparency and quick access for health care consumers regarding doctor and hospital costs as well as costs paid for by provider. We ask Congress to lead efforts to encourage transparency amongst doctors, hospitals and insurance providers.

In addition, to alleviate some of the overhead costs faced by doctors that is many times is passed on to patients in the form of higher fees, the NASE feels that Congress should facilitate and expedite the use of technology in medical offices. We live today in an electronic era, yet the majority of medical providers still use paper medical records. Implementation of electronic medical records would alleviate burdens such as high costs, medical errors, and administrative inefficiencies to our health care system. We are aware that the Department of Health and Human Resources through the Agency for Healthcare Research and Quality is working on implementing a national health information technology program to improve our current health care system. However, we feel more needs to be done to assist doctors in this transition.

Conclusion

The NASE feels current legislative solutions such as Association Health Plans, health tax credits, deductibility of premiums of plans with HSAs, and self-employment tax deductions for health insurance premiums would go a long way to ease some of the burden of micro-business access to affordable health care and alleviate the growing ranks of the uninsured. Yet, the National Association for the Self-Employed strongly supports continued efforts to find proactive solutions, rather than reactive, to address the root causes of continual health insurance premium increases and lack of quality health coverage while also increasing understanding and active participation in our health care system.



**Prepared Statement of
Karen Kerrigan
President & CEO
Small Business & Entrepreneurship Council**

On

Prescriptions for Health Care Solutions

Before the

**Committee on Small Business
U.S. House of Representatives
Donald A. Manzullo, Chairman**

March 2, 2005

1920 L Street, N.W.
Suite 200
Washington, D.C. 20036

tel: 202.785.0238
fax: 202.822.8118
www.sbecouncil.org

Protecting Small Business, Promoting Entrepreneurship

Chairman Manzullo, Ranking Member Velazquez and members of the House Small Business Committee thank you for the invitation to participate in today's hearing on this most critical issue for America's small business and entrepreneurial sector.

The Small Business & Entrepreneurship Council (SBE Council) is a nonpartisan small business advocacy organization with more than 70,000 members nationwide. For more than ten years the SBE Council (formerly the Small Business Survival Committee) has worked to advance policies that protect small business and promote entrepreneurship. My name is Karen Kerrigan and I serve as President & CEO of the SBE Council.

Despite progress on reform initiatives that are providing small business owners and their workforce with more affordable options for health insurance, certainly more needs to be done to allow consumers greater access and choice in the system.

The SBE Council advocates for and supports an array of reform initiatives that we believe will offer small business owners and their employee's greater access to affordable choices in health insurance. The general principles that underlie the initiatives we support are ones based on fairness and competition -- that is, policies should strive to treat all players big and small equitably, and where artificial barriers have limited the choices for consumers they should be reevaluated and modernized to encourage competition.

The SBE Council's support for Association Health Plans (AHPs), health savings accounts (HSAs), tax credits, the FICA deduction of health care for the self-employed and a nationwide marketplace for health coverage all support this equitable approach which, we believe, will empower small business owners and individuals through greater access and choice. In the end, this will lead to a more accountable system for all consumers.

The SBE Council appreciates the leadership of the House Small Business Committee for its continued focus on health insurance reforms. Clearly this challenging issue warrants a small business directed solution. Only 50% of firms with fewer than 100 employees provide insurance, compared with 98% of larger companies that do. The largest segment of America's uninsured either works for a small business, own a small business or are dependent on someone who does. Workers in small firms and their families comprise 60% of the uninsured.

Though health costs have not risen as fast this past year as in previous years, they still continue to have a harmful impact on most small firms. More capital and resources expended on such unmanageable costs, means less available for hiring, wage increases, business investment and expansion. The collective drain of ever-increasing health costs hurts our economy. After all, as Committee Members are well aware, the small business and entrepreneurial sector is the major source of job creation and innovation in our economy and keeping it productive and growing is critical to our economic health and competitive position in the global marketplace.

The passage and enactment of HSAs was a significant development for small firms and individuals. With small business owners saving significant dollars on health coverage costs through HSAs, and with studies demonstrating that the previously uninsured are accessing insurance through HSAs (as they did with their pilot project forerunner, the Archer Medical Savings Account) it is extremely positive that President George W. Bush, legislators at the state level and initiatives in the U.S. Congress are focusing on ways to increase HSA access through tax incentives and credits for individuals and small firms.

A recent survey by America's Health Insurance Plans (AHIP) found that nearly 438,000 people have enrolled in an HSA since they were signed into law, with most of the products being purchased by small businesses and individuals (79,000 small firm purchasers). Approximately 30 percent of the HSA purchasers overall previously did not have insurance, according to the AHIP survey, with 16 percent of new small business purchasers previously not offering insurance.

Legislation proposed in the Congress would give a further boost to the accounts by providing small business owners with a refundable tax credit for contributions to their employees' HSAs -- \$500 per employee with family coverage, and \$200 per worker with individual coverage. Implemented in tandem with legislation that would allow premiums for qualified high-deductible health insurance plans to be tax deductible, the SBE Council believes this approach would make a further dent in decreasing the number of uninsured. Added features include portability of coverage while allowing

individuals and families to accumulate savings for health expenses, or long-term health care needs.

A complimentary solution that would increase access to health coverage for individuals is the “tax credit” approach as outlined by President Bush, and represented in legislation co-sponsored by Reps. Mark Kennedy (R-MN) and Daniel Lipinski (D-IL) -- H.R. 765 the Fair Care for the Uninsured Act. H.R. 765 creates a new tax credit, available to uninsured Americans, of \$1,000 for individuals, \$2,000 for couples and \$500 for dependents, with a maximum \$3,000 for families. The credit, of course, can be used to buy a health insurance policy and gives individuals the freedom to choose their own benefits and cost-sharing features.

Creating health coverage tax equity for individuals, as this bill proposes, would make access to quality health care less of a financial burden for those who do not currently have health insurance through their employer. The “refundable” and “advanceable” features of the proposal add to the tax credit’s practicality. H.R. 765 empowers individuals, creates more choice and fosters greater competition in the health insurance marketplace.

Detractors of the tax credit concept believe that the amount is not high enough to purchase private health insurance. While some research finds that the tax credit as proposed in H.R. 765 would provide an adequate cushion to pay between one-half to two-thirds of the average cost of health insurance, clearly the cost of insurance in some states will eat away at the value of the credit. That is why the inclusion of “high-risk pools”, for example, in the tax credit legislation will be helpful for those with serious health conditions as coverage costs are capped.

Unfortunately, the regulatory burden in certain high-costs states will continue to hinder the full potential of certain federal solutions for individuals. That is why the SBE Council has fully supported federal legislation establishing a nationwide marketplace for health insurance that would allow individuals to leave the confines of their state to purchase a coverage plan that best meets their personal and financial needs. Rep. John Shadegg (R-AZ) introduced the Health Care Choice Act in the last Congress – legislation that would grant cross-border purchasing of health insurance – and we are looking forward to his reintroduction of the legislation in the near future.

As Committee Members are well aware, regulatory dysfunction at the state level is driving costs higher and serve as a significant barrier to affordable, competitive health plan choices for small business owners. That is why Association Health Plans (AHPs) are a common sense solution that would give small firms parity with larger enterprises, allow for greater bargaining power, and increase health plan choice. The SBE Council applauds the reintroduction of the Small Business Health Fairness Act (H.R. 525) and looks forward to working with our allies to advance this important piece of legislation through the U.S. Senate in the 109th Congress.

AHPs give small firms policy parity in that they are allowed to purchase insurance under the same uniform regulatory framework as larger businesses currently do. In essence, a “nationwide marketplace” brings that concept down to the individual level, allowing individuals to shop for a health coverage plan better designed for their personal and financial needs.

To conclude, the high cost of health coverage continues to eat away at the competitiveness of our small business sector. It serves as a significant barrier to entrepreneurship. Yet, it should not be a deterrent to individuals receiving coverage or pursuing their business ownership dreams. High costs and the fear of losing health coverage adds even greater risk to what already is a very risky endeavor – starting your own business. That is why giving individuals more options and choices for affordable coverage, and promoting portability and ownership in coverage is in the best interest of creating and maintaining a favorable climate for entrepreneurship.

Again, Chairman Manzullo thank you for your leadership and for all you do for America's small business sector. I look forward to our dialog and your questions.



Testimony for

THE UNITED STATES HOUSE OF REPRESENTATIVES

SMALL BUSINESS COMMITTEE

Hon. Donald Manzullo, Chairman
Hon. Nydia Velazquez, Ranking Member

March 2, 2005

By

**Scott A. Shalek, RHU
Shalek Financial Services
6817 Barnard Mill Road
Ringwood, IL 60072
(815) 653-5966
shalek@juno.com**

Good Afternoon. My name is Scott Shalek. I am a former board member of The National Association of Health Underwriters, and own an independent insurance agency in Ringwood, Illinois which specializes in benefits consulting and retirement planning for individuals and business ranging in size from 1 – 500 employees solving many complex and diversified situations. NAHU is an association of insurance professionals involved in the sale and service of health insurance, long-term care insurance, and related products, serving the insurance needs of over 100 million Americans. We have over 20,000 members around the country. NAHU has been an active participant in solutions for rising costs and the uninsured and we're pleased to have this opportunity to talk about possible solutions with members of this committee.

Prescriptions for Healthcare Solutions

According to the U.S. Census Bureau, approximately 45 million Americans currently lack health insurance coverage. Increasing health care costs across the nation have caused health insurance premiums to rise significantly. This increase has been due to a variety of factors, including technological advances, pharmaceuticals, and an aging population. These cost-drivers of health care are often magnified by state regulation that decreases competition or stifles creativity and innovation. If this trend continues, employer-based coverage and the financial participation of employers will be eroded. Already, employers have been forced to shift increased premium expenses to employees in the form of higher cost sharing. In addition, health insurance carriers have left many unprofitable service areas and as a result, employers and individuals have a reduced choice of health insurance plans, particularly in rural areas.

Due to these disturbing trends, a number of proposals have been put forth, both at the federal level and in the states, to attempt to solve the problem of the uninsured and ensure

universal health insurance coverage for all Americans. Some of these coverage proposals include a government-run single-payer health insurance system, a mandate on all employers to provide their employees with health insurance coverage, and various forms of tax incentives and other initiatives to encourage people and businesses to purchase private-market health insurance coverage.

Health Reimbursement Arrangements and Health Savings Accounts

Health Reimbursement Arrangements (HRAs) and Health Savings Accounts (HSAs) have already made a huge impact on health insurance markets of all sizes. The biggest impact has been in the individual market, and among very small employers. Many more small employers will be looking at these options, and a tax credit for part of their contributions to employees' health savings accounts would be a great incentive for them to offer coverage.

For the people who work for small businesses who are still not able to offer health insurance coverage, it is important that their premiums for HSA-compatible health insurance are deductible. This will encourage them to buy health insurance coverage and will give them the ability to buy their coverage with pre-tax dollars the same way those in employer sponsored plans are able to do.

In addition, in light of the aging workforce, HSAs would be more effective if individuals who are actively working were allowed to contribute to them until they retire, not when they become covered under Medicare. As more people work past age 65, the current restrictions on contributions once an individual is eligible for Medicare will be more of a problem for employers.

GAP Plans

With the current increasing numbers of employers changing their employee benefit programs to High Deductible Health Plans (HDHP) several insurance carriers are now offering GAP Plans to cover out-of-pocket expenses. These supplemental plans help fill the gap based on the employers current medical plan. Coverage's are available from as

low as a \$500 Maximum benefit to as high as \$5000. Coverage's now include In-Hospital expenses, Out-Patient benefits and Physician visits. Depending on the size of the group, premiums can be paid by the employer, the employee on a voluntary basis or a combination of both.

Flexible Spending Accounts

Flexible Spending Accounts (FSAs), also referred to as Cafeteria or Section 125 plans, allow employees to set aside a portion of their take home pay on a pre-tax basis, to pay for certain out-of-pocket health care or dependent care expenses. Amounts set aside in FSAs are not subject to state or local taxes and employees who anticipate out of pocket medical expenses can save up to 28 percent or more by paying those expenses with money set aside in their FSA account, including deductibles and co-payments, prescription drugs and medical supplies, eyeglasses, smoking cessation programs, or psychiatric care and psychologist fees. The Internal Revenue Service currently requires all amounts set aside in an FSA must be used each year for qualified expenses and balances that remain in an FSA at the end of a plan year cannot be returned to individual plan participants.

As we look at ways to lower health care spending, it becomes readily apparent that the current "use it or lose it" rules for FSAs are a perverse incentive to spend more on health care rather than encourage appropriate consumer behavior. The current prohibition on rollovers should be removed and individuals with FSAs should be allowed to roll-over up to \$500 to the following year. Health care needs vary from year to year and it is difficult for an individual to determine whether costs will remain the same from year to year or increase due to a significant health event. As we look at solutions, FSAs play an important role in cushioning the financial impact to employees that results from increasing health care premiums.

Tax Credits

A refundable health insurance tax credit for low-income individuals is an important way to achieve affordable private health insurance coverage. A health insurance tax credit would help ensure that low-income Americans who have the greatest difficulty affording coverage would have a basic level of resources to purchase health insurance. The tax credit, by being available only for the purchase of private sector insurance, would allow low-income individuals to shift from the very costly Medicaid program into private insurance plans. A health insurance tax credit would also help to lower the per capita cost of insurance, by reducing the amount of uncompensated care that is currently offset through cost shifting by health care providers to private sector insurance plans, and by substantially increasing the insurance base, spreading the cost over a wider number of people.

The best type of refundable tax credit proposal is one that is flexible enough to address the needs of many different individuals. Rep. Kay Granger's proposal is such a proposal. It provides a \$1,000 tax credit/\$3,000 family, and in addition provides an additional credit for those whose premium is higher than normal due to age or health status. A partial credit is also available for those who have coverage through an employer-sponsored plan.

High-risk Pools

High-risk pools provide an important safety net for people with catastrophic medical conditions who do not have access to employer-based group health insurance, such as early retirees, self-employed individuals, and employees of businesses that do not offer health insurance coverage. In addition, in most states, high-risk pools serve as the guaranteed-issue purchasing option for individuals who wish to exercise their federal group-to-individual health insurance portability rights as provided by the federal Health Insurance Portability and Accountability Act of 1996. And in thirteen states, the high-risk pool also is available as a purchasing option for individuals who are eligible for the 65 percent federal health insurance tax credit provided by the federal Trade Adjustment Assistance Act of 2002. High-risk pools are an extremely important market stabilizer for

both the individual and small group markets and prevent the need to game the system to qualify for other sources of guaranteed coverage.

On February 9, 2005, The Senate HELP committee passed S288, to extend and increase funding to high risk pools. In addition to increasing the funding to \$75,000,000 per year through 2009, it also changes the formula to one that gives 50% of the funds equally to each eligible pool, and the remaining 50% split equally based on number of uninsured and number of pool participants. Additionally, it extends the deadline for the use of seed money for the establishment of new pools, and modifies the requirement that a qualified pool be used for HIPAA eligibles to also allow a state to qualify if they have some other alternative mechanism allowable under HIPAA.

In October of 2004, Congressman John Shadegg introduced high risk pool funding legislation in the House. Although the House and Senate versions are different, we are hopeful that legislation will be reintroduced in the House and that the House and Senate will come to agreement on this much-needed legislation.

Purchasing Pools

Some states could theoretically benefit from the establishment of voluntary private purchasing pools. This would be the case in situations where there is little competition due to market conditions and a general lack of availability of good options. It should be noted that there is no indication that these pools will actually save money, although they do provide choice and many provide access where the market is currently fairly restricted. Pools have been attempted many times, and have yet to prove a significant cost savings.

The only way a pool would provide greater affordability is if it were combined with some other mechanism like a tax credit for low-income people. If this were done, it would be extremely important to provide availability of the same mechanism to coverage offered both inside and outside the pool in order to ensure a level playing field in the health insurance market.

State Grants

States often have excellent ideas of their own for increasing access to health care. One of the best is from the state of Oregon. This innovative program provides subsidies from 50-95% of the cost of private health insurance coverage through the Family Health Insurance Program. The cost is paid through state appropriations. Coverage can be provided either through an individual or group plan. The statistics on the program are very interesting, and it has been a success.

The Oregon program has a waiting list due to state budget constraints, which could be alleviated with a federal grant. Other states could also be encouraged to undertake such a program. If a federal tax credit with broad eligibility for low-income individuals passed, states could supplement federal tax dollars with state subsidies, increasing affordability of coverage and reducing the number of uninsured. About six high-risk pools also have low-income programs for participants, but these are always in danger due to limited funding. State grants could also be used for these types of initiatives.

Grants could be directed at those who need help most, depending on the conditions in each state.

Association Health Plans

In my testimony before this committee on August 14, 2002 I outlined my concerns with Association Health Plans (AHPs) and Multiple Employer Welfare Arrangements (MEWAs), and cited case studies of the problems with these programs.

We still oppose such proposals which are exempt from state-mandated benefit laws and give AHPs a pricing advantage over the fully insured small group health insurance markets. We believe that all health insurance benefit mandates increase the cost of coverage and would prefer that small employer plans were exempted from such requirements. Unless congress is willing to preempt state laws and exempt all small employer plans from state-mandated benefit laws, we feel that all plans in the small

employer market, including AHPs, should play by the same rules to encourage competition and maintain a healthy, level playing field.

Conclusion

We believe that there is no one magic answer to the problem of the uninsured or for making health insurance more affordable. A multi-faceted approach will be required since no one solution will fit the needs of all of our citizens. Any attempt to provide Americans with universal access to health coverage should preserve the private health insurance market. Other countries have experimented with government-run health care systems, and this has only resulted in high-cost, lower-quality rationed care. Americans need to be able to access a competitive health insurance marketplace with a wide range of health plan choices.

The public policy components that we feel would be necessary to ensure that all Americans have access to affordable, privately marketed health insurance coverage include:

- The availability of advanceable and refundable federal health insurance tax credits for low-income individuals. This credit must be able to be used to purchase coverage either through the individual health insurance market or through the employer-based health insurance system. Many individuals employed by small businesses already have coverage available through their employer but are unable to pay their share of premiums. A flexible individual tax credit that could be used both in an employer sponsored plan as well as in the individual market for those without access to employer sponsored coverage would be very helpful to many uninsured individuals and families.
- Expansion of access to consumer-directed health insurance alternatives, such as allowing individuals to actively contribute to Health Savings Accounts until they retire (not just until they reach age 65), allowing the limited roll-over of Flexible Spending Account funds, and allowing individuals to participate in

Flexible Spending Accounts as well as Health Reimbursement Arrangements as long as an eligible expense is reimbursed from only one of the accounts.

- The development of creative ways to insure high-risk individuals in both the group and individual markets that will ensure that coverage for the majority of individuals who are healthy remains affordable, such as the use of reinsurance pools.
- The availability of a health care safety net for the lowest-income segments of our population that utilizes the private market wherever possible to provide individuals with high-quality medical options. A good example of this is Health Insurance Flexibility and Accountability (HIFA) waivers, which allow states to use existing Children's Health Insurance Program (CHIP) dollars to help low-income parents purchase private employer-sponsored health insurance coverage for their dependents.
- The availability of continued federal funding for high-risk pools, which provide an important safety net for people with catastrophic medical conditions who do not have access to employer-based group health insurance, such as early retirees, self-employed individuals, and employees of businesses that do not offer health insurance coverage. Pools not only provide a coverage home for those very vulnerable consumers, but they also help stabilize state health insurance markets by guaranteeing that those very high-risk individuals are covered in a contained, private-market environment.

We also feel that in addition to these public policy objectives, other factors contributing to the national increase in health care costs must be thoroughly examined, including but not limited to:

- General over-utilization of health care services

86

- Soaring medical malpractice insurance costs for physicians. Medical liability expenses are estimated to cost the country \$24 billion each year, and that cost is passed directly on to the consumer in the form of higher health insurance premiums.
- Increased medical costs associated with various public health problems (e.g., obesity, tobacco use, the over-prescribing of antibiotics and an aging population)
- Prescription drug prices, including the costs of direct-to-consumer advertising
- Provider and hospital reimbursement problems, including the ability of health plans to negotiate with providers and establish adequate networks, particularly in rural areas
- Voluntary publication of rates and outcomes by hospitals, as an incentive to consumers, will provide the consumer with enhanced service, choice and education in making sound decisions in their health care.

I appreciate this opportunity to share ideas and welcome any questions the committee has.

87

Testimony of Maria Welch

Respira Medical Inc.

Baltimore, MD

House Committee on Small Business

“Prescriptions for Health Care Solutions”

March 2, 2005

I want to take this opportunity to thank the House Small Business Committee for allowing me to participate in this hearing. I am the Founder and CEO of Respira Medical, Inc. a respiratory and home medical equipment company located in Baltimore, Maryland.

Respira commenced operations on March 15, 2001, we employ 32 individuals and have cared for over 6500 patients throughout a broad geographical area which includes Maryland, DC, Northern Virginia, Southern Pennsylvania, Northern Delaware.

The issue being addressed in today’s hearing is the number one issue facing small businesses: the rising costs of health care.

As a small business owner and serving in the health care arena, I am intimately familiar with the rising costs of health care. Since day one, I have provided the best health insurance available to my employees, however, I can only afford to provide fifty percent of the cost and my employees are responsible for the remaining portion. My desire is to be able to offer 100% company paid health insurance as a benefit to help Respira be an attractive option for top notch employees in the extremely competitive field of respiratory home care and to aid in the retention of my current employees. The insurance I offer my employees is a reflection of the success of my business – and I, like most small business owners, am trying to do what is right and continuing offering quality coverage for my employees and their families.

Unfortunately, the environment we are operating in is extremely daunting. I have seen my health care costs rise by over ten percent in each of the last three years. The money that goes into paying for these rising health care costs means that I have less dollars to grow the infrastructure of my company. I have been able to expand in the past few years but the rising costs have meant that I am limited ability to hire more employees. Essentially, increasing the company contribution to our goal of 100% of

employee health care coverage means we would have to sacrifice the ability to hire an additional employee. I know of many other small businesses that are in a similar quandary.

The problem is that there are so few options for small business to provide healthcare for their employees. In Maryland, this is very serious problem. The state legislature has worked to set up a high risk pool to help individuals who cannot purchase health insurance because of the high costs, but we need more options. Like me, other business owners have an option of dropping coverage or starting to pass on greater costs to their employees. This is truly a health care crisis for many small entrepreneurs like myself.

As a health care provider myself, I know that health care costs are rising, but insurance costs are increasing at a much greater rate. One of the problems for my business is the reimbursement rates are lowering, while health care costs are rising. As we speak, Medicare is in the process of, once again, cutting their reimbursement to providers like Respira.

Clearly small businesses need more clout in the insurance marketplace.

There is no doubt in my mind that without AHP or other mechanisms which increase our clout, small business will be at the mercy of insurers rates.

I applaud Chairman Manzullo and Ranking Member Velázquez for supporting HR 525, the Small Business Health Fairness Act of 2005. The passage of AHP legislation will ensure greater competition in the health insurance market – something that is clearly lacking right now. As a small business owner, I simply do not have the choices that large employers have and it is my hope that AHPs will become law in the 109th Congress.

However, my optimism for passage of AHPs is somewhat tempered. I must admit that I am disappointed in the lack of progress made in Washington on bringing down health care costs. While these hearings clearly show there is an interest, it is time for action.

Small businesses are becoming frustrated that their needs are being talked about, but they are not being met. The AHP legislation has been talked about for over four years and we still see no relief.

I am a member of the Board of the Baltimore Hispanic Chamber of Commerce and a founding partner of Women Impacting Public Policy, both groups have been pushing Congress and the administration to pass AHPs for the last four years. While we have had success in the House of Representatives, we have not had the same success in the Senate.

When you talk about improving our economy, one of the best ways to allow this nation's job creators do just that, is to bring down the health care costs.

I want to thank the Ranking Member for inviting me to testify and I look forward to the discussion on solutions to this problem.

