

**FULL COMMITTEE HEARING ON
COMMON GROUND: FINDING CONSENSUS
ON HEALTH REFORM,
THE SMALL BUSINESS PERSPECTIVE**

HEARING

BEFORE THE

**COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES**

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CONTENTS

OPENING STATEMENTS

| | Page |
|-------------------------------|------|
| Velázquez, Hon. Nydia M. | 1 |
| Graves, Hon. Sam | 2 |

WITNESSES

| | |
|--|----|
| Wordsworth, Mr. Jim, Owner, J.R. Goodtimes, Inc., McLean, VA, On behalf of the U.S. Chamber of Commerce | 3 |
| Burkholder, Ms. Joan M., Owner, Crist Instrument Co., Inc., Hagerstown, MD, On behalf of the U.S. Women's Chamber of Commerce | 6 |
| Castiblanco, Mr. Freddy, Owner, Terraza Cafe, Jackson Heights, NY, On Behalf of Main Street Alliance | 7 |
| Nicholson, Mr. John, Co-Owner, Company Flowers & Gifts Tool, North Arling- ton, VA, On Behalf of the National Association of Independent Business | 9 |
| Thompson, Mr. Bradley L., President, Inland Press, Detroit, MI, On behalf of Printing Industries of America | 11 |

APPENDIX

| | |
|--|----|
| Prepared Statements: | |
| Velázquez, Hon. Nydia M. | 24 |
| Graves, Hon. Sam | 26 |
| Wordsworth, Mr. Jim, Owner, J.R. Goodtimes, Inc., McLean, VA, On behalf of the U.S. Chamber of Commerce | 28 |
| Burkholder, Ms. Joan M., Owner, Crist Instrument Co., Inc., Hagerstown, MD, On behalf of the U.S. Women's Chamber of Commerce | 35 |
| Castiblanco, Mr. Freddy, Owner, Terraza Cafe, Jackson Heights, NY, On Behalf of Main Street Alliance | 42 |
| Nicholson, Mr. John, Co-Owner, Company Flowers & Gifts Tool, North Arling- ton, VA, On Behalf of the National Association of Independent Business | 49 |
| Thompson, Mr. Bradley L., President, Inland Press, Detroit, MI, On behalf of Printing Industries of America | 60 |

**FULL COMMITTEE HEARING ON
COMMON GROUND: FINDING CONSENSUS
ON HEALTH REFORM,
THE SMALL BUSINESS PERSPECTIVE**

Wednesday, June 3, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360 Rayburn House Office Building, Hon. Nydia Velázquez [chairman of the Committee] presiding.

Present: Representatives Velázquez, Moore, Dahlkemper, Altmire, Clarke, Ellsworth, Bright, Griffith, Halvorson, Graves, Luetkemeyer and Coffman.

Chairwoman VELÁZQUEZ. Good afternoon. This hearing is now called to order.

Whether it is in political discourse, the nightly news, or conversation around the dinner table, Americans consistently use the same word to describe health care: “broken,” and that is exactly what it is. With 47 million people uninsured, there is no question that the status quo is unsustainable, but where do we go from here? How do we chart a new path moving forward?

Today, it seems everyone has different thoughts for doing so, but regardless of those varying ideas, one thing is very clear. If we are going to fix health care, we have to start with small businesses.

There is a reason we call small firms the backbone of our economy. They employ half of the private sector work force. When these businesses do well, the whole country does well.

On the flip side, however, obstacles for entrepreneurs mean challenges for American workers. In the case of small business health care, the challenges are significant. Already the overwhelming majority of America’s uninsured are small business employees and their families.

In the last several years, this Committee has held several health care hearings, but today’s will be different. That is because both Congress and the administration are committed to change, and the ball is officially rolling towards reform. Today we will discuss ways to make sure it is rolling in the right direction.

The call for health care reform is nothing new. For decades Americans have waited for a solution that is both comprehensive and sustainable. It was not until recently, however, that reform took on new urgency. For entrepreneurs the clock is truly ticking.

Already their coverage costs are 74 percent higher than they were in 2001, and those rates are not leveling off.

As a general rule, small business premiums shoot up between eight percent and 16 percent annually. That means they will be even more expensive next year. For small businesses already battered by the recession, these costs have become impossible to absorb.

As rates continue to climb, entrepreneurs are facing tough choices: cut health care or cut job. According to the National Business Association, ten percent of small firms may drop coverage in the next year. That is not a decision an entrepreneur should have to make. After all, a small business work force is a close-knit community. Already coverage within micro firms, those with ten employees or fewer, has dipped to 35 percent.

In the last few months, Congress has taken steps to help firms survive the recession. We have made credit less expensive and capital more accessible. But until we have made health care affordable, these provisions can only go so far.

That is why Ranking Member Graves and I have introduced the Small Business CHOICE Act of 2009. That bill has the potential to rein health care expenses. By cushioning costs and giving entrepreneurs better bargaining power, it promises small firms the best range of possible options.

While there is no silver bullet solution to America's health care woes, there is opportunity for improving the system. At the end of the day, small businesses need options, and there are several out there. Whether it is pooling mechanisms, insurance exchanges, or refundable tax credits, the one thing we know will not work is the status quo. That has become abundantly clear.

In the coming weeks, Congress will begin laying the groundwork for real and lasting reform. It is about time. Entrepreneurs cannot afford to wait any longer, and neither can our economy. It is critical that we come to a consensus on small business health care because until we do small firms will continue to struggle, and so will our recovery efforts.

At a time when we are counting on entrepreneurs to lead us out of recession, we cannot afford to hold them back.

I would like to take this opportunity to truly thank all the witnesses for being with us today and look forward to hearing from them.

With that I would like to yield to Ranking Member Graves for his opening statement.

Mr. GRAVES. Thank you, Madam Chair.

And good afternoon, everyone, and thank you for participating in today's hearing.

The rapid rise in the cost of health care is placing a strain on many working families and small businesses. Nearly 46 million Americans are without health insurance, and of those, an estimated 26 million are small business owners, employees or their dependents.

For those who do have health insurance and can afford to pay the premiums, costs are rising and there does not seem to be any end in sight.

On the other hand, the United States is the leading innovator of newer and more effective treatments for a variety of conditions and diseases that are improving the quality of life for people. Unfortunately, millions of our citizens cannot take advantage of these innovations because they cannot afford good health insurance or are finding that the insurance that they do have does not fit their needs.

As Congress gets set to consider comprehensive health care legislation, my principal objective is to make health care more affordable without sacrificing access to quality care. Price is often the primary barrier to care, and to that end, keeping frivolous lawsuits in check, any of the tax code's discrimination against the self-employed and allowing business to pool together and negotiate better rates will all be helpful to keeping prices affordable.

We should also focus on more preventive tools and incentives that help providers keep people healthy rather than reimbursing them to treat people when they are sick. Wellness programs like those mentioned in previous hearings are a great way to decrease health care costs, reduce absenteeism, and increase productivity.

Lastly, I am a strong opponent to a national employer health care mandate, especially one administered by the federal government. As I have mentioned in previous hearings, mandating employers to offer coverage is a very costly option. According to an NFIB study, a national employer health care mandate could cost our economy roughly 1.6 million jobs with small businesses taking on the brunt of those losses.

It is apparent that fixing our health care system will be a challenge, but I look forward to the hearing and the challenges, Madam Chair, and I appreciate you bringing up the bill that we have sponsored.

I do want to thank our witnesses for coming here today. Some of you come a ways to be here, and again, I appreciate the opportunity.

Chairwoman VELÁZQUEZ. Thank you.

And I welcome our first witness, Mr. Jim Wordsworth. He is the owner of JR's Good Times, Inc., located in McLean, Virginia. JR's Good Times is made up of a number of small companies delivering a wide range of hospitality services to the Washington, D.C. area. Mr. Wordsworth is testifying on behalf of the U.S. Chamber of Commerce.

The U.S. Chamber of Commerce is the world's largest business federation representing three million businesses.

Welcome, sir. You will have five minutes to make your opening remarks, testimony.

**STATEMENT OF JIM WORDSWORTH, JR'S GOOD TIMES, INC.,
ON BEHALF OF THE U.S. CHAMBER OF COMMERCE**

Mr. WORDSWORTH. Good afternoon, Chairwoman Velázquez, Ranking Member Graves, and distinguished members of the Committee. Thank you for asking me to testify before you today.

I am Jim Wordsworth, president of JR's Good Times, Inc., a 250-seat restaurant located in Tyson's Corner, Virginia. I also own several other small businesses, and I'm here to speak to you today on behalf of the U.S. Chamber of Commerce.

I am currently on the Chamber's board of directors and serve as Chairman of the Council on Small Business and also as the Chairman of the Labor Relations Committee.

On health reform, as you know, small businesses have a hard time finding affordable health insurance. Insurers may not want to contract with a small group or premiums may be astronomical. Small businesses must purchase coverage that complies with state mandate laws that raise the cost of insurance. The same insurance policy might cost twice as much in one state as in the next, but small businesses generally cannot purchase policies across state lines.

Even worse, small businesses lack a streamlined way of pooling together to spread risk or negotiate with insurers. There are positive steps. Congress is currently considering many good strategies to combat rising health care costs. The Chamber applauds these efforts, especially proposals to pay for performance and not just quantity of care, to improve care coordination, and to explore bundling payments, reduce hospital re-admissions, and more.

We support robust implementation of health information technology, increased transparency of quality and cost information, and efforts to support administrative simplification which will necessitate Congress stepping in and creating some national standards that override state rules.

Some changes will be beneficial to small business almost immediately. Among these is fair regulation of insurance companies through the creation of a national health insurance exchange. By setting national rules that require health care's insurers to issue policies to all comers preventing drastic variances in the cost of coverage, putting an end to pre-existing condition restrictions and changing insurer's incentives from avoiding risk to managed care, Congress will make health insurance much more affordable to small business.

The exchange will be a powerful tool for connecting individuals and small businesses with insurers and helping them to shop smart and find the best fit policies, but it should be up to the employer whether or not to participate, and employees should not get tax incentives to leave employer plans.

Ideally, employees should be able to join ERISA-like plans through the exchange. Chairman Velázquez, the CHOICE bill that you have sponsored would be an excellent step in the right direction in creating a pooling of reinsurance mechanism that could help small business control cost, manage risk, and build more predictability into the premium structure.

Small businesses are also grateful that Congress is considering subsidies for small business to insure their employees and to create wellness programs. These subsidies, because of the tax structure, and strategies of many small businesses should be refundable, flexible and apply to a large swab of small businesses, not just the smallest micro business.

There are steps in the wrong direction as well. Referred to as shared responsibility, many in Congress are insisting on the creation of a mandate that employers sponsor insurance coverage or be force to pay into a fund. Employers do want to provide insur-

ance, but many are precluded doing so by high costs, low profit margins or insurance market problems.

The idea that an employer mandate will increase coverage is illusory because new rules will not change financial realities for small business, but could cost hundreds of thousands of jobs and prevent businesses from hiring new workers.

Congress might propose to carve out some small businesses from an employer mandate, but in the end these carve-outs tend to shrink and disappear. A proposal in the Senate attempting to target only medium to large employers would be devastating to small employers, and would have damaging effects even on some micro businesses. In effect, smaller employer would still be swept up by these new mandates.

A better option would be to create an individual obligation to obtain health insurance. This would bring market forces to bear on employers. Employers who wanted the best talent and to be competitive at all would have to do their best to offer benefits that satisfy individual obligations of potential employees, and these employees they want to keep.

Ideally, if Congress puts in place aggressive insurance market reforms and robust exchange, a government run health insurance company would be unnecessary. Employees of all sizes have serious concerns about the consequence that it would have on the insurance marketplace or employer sponsored coverage as the nation's finances.

The Chamber also has concerns about proposals to tax employee benefits. Congress should keep in mind that capping the employee exclusion has been a long time goal of policy wonks, who believe that a national standardized cap will lead to reducing regional variations and lowering the cost of health care and insurance coverage.

However, proposals to cap or eliminate the exclusion only for high income earners represent a soak the wealthy mentality that is unhealthy for the nation's fiscal policy as well as useless from the standpoint of a health care perspective.

In conclusion, the Chamber is eager to work with the Congress to enact this year a comprehensive health care legislation. That being said, the business community will not support reform for the sake of reform. As Congress continues to work on health care reform, the Chamber looks forward to working with you to insure that these goals and priorities of small business are taken into account.

I thank you.

[The prepared statement of Mr. Wordsworth is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you.

Our next witness is Ms. Joan Burkholder. She's the owner of Crist Institution in Hagerstown, Maryland. The company primarily specializes in the design and manufacturing of biomedical research equipment.

Ms. Burkholder is testifying on behalf of the U.S. Women's Chamber of Commerce with over 500,000 members. The Women's

Chamber of Commerce works to create economic and leadership opportunities for women through networking and advocacy.

Welcome.

STATEMENT OF JOAN M. BURKHOLDER, CRIST INSTRUMENT CO., INC., ON BEHALF OF THE U.S. WOMEN'S CHAMBER OF COMMERCE

Ms. BURKHOLDER. Chairwoman Velázquez, Ranking Member Graves, and members of the Committee, I am here today as a member of the U.S. Women's Chamber of Commerce representing over 500,000 members and millions of American small businesses who are struggling to provide health insurance for themselves, their families, and their employees.

The employer based health care system in this country has become a travesty. It particularly disfavors small and medium size businesses that do not representing a large risk pool of insured employees, and it leaves out the self-employed who either go without coverage or are left to seek individual policies where premiums are exorbitant.

Costs. Costs have been spiraling for small businesses for a number of reasons. Small business premium costs are based upon size, the average age, and the historical health care cost of the employee group. As the employees age, overall health care costs increase and small businesses bear increasingly heavy burdens.

The effect on small businesses and their employees as a result of spiraling health coverage cost is multifaceted. Many firms simply drop out, no longer able to provide employee health insurance due to cost. This leads to an exodus of good employees seeking employment where health insurance is offered.

In the case of my company, we continue to provide coverage, but have asked employees to pick up more of the cost. We are not alone in this practice. As the employees' share of premiums has increased, more employees are opting out of coverage. Today only 73 percent of our employees are covered under our company policy. This year we have asked the employees to pay 60 percent of the premium payment, thus decreasing their real income. If we ask them to cover even more next year, fewer will remain covered, shrinking the size of our group and thus driving costs up even more, as only those with chronic conditions will opt to continue coverage.

Last year the total cost of coverage for only 11 employees of our company was a whopping ten percent of our gross revenues. It ate up every bit of the profit that we should have made and then some. The rate increase last year was a whopping 22 percent. Even worse, we had been informed as of this morning that the rates are set to increase by another 19 percent in August of this year.

How can health insurance be affordable when an employee earning three to \$500 per week pays premium coverage for their family at \$1,500 per month with a \$2,400 deductible and copays as well?

How can a small business owner afford \$1,500 per month for each of their employees and still stay in business? Frankly, short of any catastrophic health issue our firm could pay for normal health maintenance for all of our employees for less than we are paying for 73 percent of our staff now.

Age and size discrimination. Small businesses are being forced to discriminate in their hiring practices to continue health insurance coverage for employees as insurance rates begin to increase dramatically for persons over 40, substantially increasing and unpredictable health care costs for small businesses to delay or cancel new hires.

Ideally, the whole existing system should be scrapped and rethought. As it is not practical or politically feasible, I recommend the following:

One, major reductions of premiums by requiring insurance companies to honestly pool risk among all insured individuals and families. The plan proposed by Senator Baucus, as an example, implementing a national insurance exchange, including a public option, would be a good way to make this happen.

However, the public option should be in addition to the private insurance to provide choice and competition.

Two, insuring all Americans are covered to spread the cost is desirable, as it would potentially drop rates. However, mandates are not an option as it would force many small businesses to close their doors completely. Affordability is essential and tax incentives for small businesses should be included.

Three, streamline the processes through information technology.

Four, limit the ability of insurance companies to deny coverage. Primary physicians and specialists know their patients; they know their history and know what best care they should receive.

Finally, over the past several years, the competition between health insurance companies has decreased as a result of mergers. Fewer health insurance companies create less competition, resulting in higher premiums. It is government responsibility to establish guidelines for equality for the good of all, small businesses, health care providers, and insurance providers, as long as the system we currently have continues to be utilized.

Thank you very much.

[The prepared statement of Ms. Burkholder is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you.

Our next witness, Mr. Freddy Castiblanco. Mr. Castiblanco is the owner of Terraza Cafe in Jackson Heights, New York. Mr. Castiblanco employs six people in his cafe, and his employees are all uninsured. He is testifying on behalf of Main Street Alliance, a network of state small business coalitions building a new voice for small business and health care.

Welcome.

**STATEMENT OF FREDDY CASTIBLANCO, TERRAZA CAFE, ON
BEHALF OF MAIN STREET ALLIANCE**

Mr. CASTIBLANCO. Thank you.

Chairwoman Velázquez, Ranking Member Graves, and members of the Committee, I thank you for the opportunity to testify on ways to make health care reform work for small businesses.

My name is Freddy Castiblanco. I am the owner of Terraza 7 Train Cafe, a small business located in the Jackson Heights/Elmhurst neighborhood of Queens, New York, one of the most diverse

places in the country. We have been in business for over eight years.

When I immigrated to America nearly a decade ago from Colombia, where I had practiced as a physician, I wanted to achieve the American dream and open a small business. With my own hands and a team of employees, I built a cafe in a formerly abandoned storefront which has become a vibrant center of neighborhood life, where the community members gather and where local artists show their work.

We have built our business to employ 11 dedicated employees, five full time and seven part time, and I am proud to create jobs for my community.

As my business grew, I wanted to find health coverage for my employees and their families. However, my hopes were closed when I consulted a broker and I found the premium for a decent benefits package would be over \$700 a month for each employee. This would make health care the largest expense for my business after wages, over 18 percent of my payroll. That is more than my rent and any other operating expenses.

I considered purchasing a less expensive plan, but the high deductible seemed unfair and ultimately not worth the cost because my employees would not be able to afford the out-of-pocket costs. I had to make the hard decision to forego health insurance.

I have lost some of my most talented employees because I could not provide health insurance for them. I have witnessed employees avoid necessary medical treatment. Because they fear a large hospital bill, what would have been a small problem turned into a large crisis because my workers do not have health coverage.

Others have gone without regular checkups and preventive care for many years now and have no regular physician. It pains me as an employer, and as a doctor, that my employees, their families cannot get routine care that would help them lead a healthier and more productive life.

I share my story because I believe it is emblematic of the larger health care crisis, which small businesses have been on the front lines of for years. Our health care is not working for small businesses. To fix this we must consider the following four points: affordable cost; quality coverage; shared commitment; and real choice.

I will focus the rest of my comment in the last two points, shared commitment and real choice. You may not hear consensus on these points today, but I encourage you to talk to the real business owners in your home districts. You may find they have different views than what you hear from groups based here in Washington.

This issue of shared commitment is sometimes put to us. "Do small businesses like the idea of mandate?" I believe this is asking the wrong question. Nobody likes the word "mandate." That's not a surprise, but ask a small business do we want good health insurance for our workers. Yes, we do. Do we feel a responsibility to help our employees afford health care? Yes, we do. Do we want to be part of the solution? Yes. Are we willing to contribute? Yes.

There seems to be an assumption that if we don't have a mandate, we won't have to pay for health care. This ignores the reality that we are paying already. We are all paying the cost of our bro-

ken health care system in the horrible premiums for those who have coverage and in lost employees, lower productivity, and financial insecurity for those who do not.

As a cafe owner, maybe it is my job to remind us all that there is no free lunch in health care. So we are willing to contribute. To make that possible we need real affordability and real choices. Now, a central question is "should the reform include the public health insurance option?" I say yes. Let the small business owners decide what works for us, to keep what we have if it is working or choose something new if we have no good choices, no good options.

This will give us greater bargaining power and of course competition among insurers to make coverage affordable. Some argue we ought to leave health reform to private insurers, but I ask why put all of your eggs in one basket? It is hard for small business owners to trust the insurance companies. Why should we after so many years of frustration? Insurers have been unable or unwilling to contain cost increases and cannot offer real coverage we can afford. So why put all of our eggs in one basket, especially when the basket is broken?

In closing, I want to say I admire the American entrepreneurial spirit. I am proud to be an example of that spirit in action, and I know other immigrant business owners share that pride. I know small business will help us regain our economy vitality. We need to fix health care to make this possible. A common sense compromise that we can reach gives us more choices, including a public health insurance option to ignite competition, drive down cost, and make good coverage supportable.

And you will find small business owners on Main Streets across America not only willing to contribute, but ready to serve.

Thank you.

[The prepared statement of Mr. Castiblanco is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Castiblanco.

Our next witness is Mr. John Nicholson. Mr. Nicholson is the co-owner of Company Flowers & Gifts Too in Arlington, Virginia. After 30 years of being a newspaper editor, executive of a national trade association, and federal official, Mr. Nicholson retired to promote and support his family's company.

He is testifying on behalf of the National Federation of Independent Business. Founded in 1943, the NFIB represents over 600,000 small and independent businesses across the country.

Welcome.

STATEMENT OF JOHN NICHOLSON, COMPANY FLOWERS & GIFTS TOO, ON BEHALF OF THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. NICHOLSON. Thank you, Madam Chairman and the Ranking Member and members of the Committee.

My name is John Nicholson, and I am co-owner with my wife of Company Flowers & Gifts Too. We have been in business in Northern Virginia for more than 18 years and currently provide floral and gift services throughout Northern Virginia and, of course, here

in Washington, D.C. Our floral business is my retirement occupation, as you pointed out, which I own and operate with my wife.

We are all too familiar with the ever increasing costs of providing health care. From a cash flow perspective, each month we must generate cash to pay for health insurance at a rate that is roughly half the amount needed to pay the rent, and usually slightly more than that is needed to pay the outstanding sales tax due on the previous month's sales, and it is also roughly equal to the amount of cash needed for the payroll related expenses, such as federal tax withholdings, Social Security and Medicare.

So in short, health insurance is a huge expense associated with our business. We have 15 part-time and full-time employees. Of the nine full-time employees that are eligible, seven of our employees obtain their health insurance through our business. We used to pay 100 percent, but then with the cost increases we have made adjustments of the years so that with our employees sharing now an additional percentage of costs, we pay half and they pay half.

In addition to the expense maintaining coverage in a market where flexibility and choice are limited is also extremely tough. We have difficult medical histories, and they are very reluctant to shop around for new plans because we would be subjected to new underwriting processes, and that would increase our costs, I am sure.

But at the end of this year that may all change and not for the better. At the end of this year, we anticipate our rates are going to skyrocket because what has happened is our small groups and the experience of just the small groups have been told to us that they are probably going to double the rates at the end of the year.

Depending on just how bad the sticker shock is, we would have to stop paying for half of the coverage all together or shift out of our current plan and start looking for another one hopefully at a lower cost. I doubt it.

At NFIB we have three Cs, cost, choice, and competition. We want to lower the costs for small business. We want to provide easier ways to shop for insurance, and competition among the number of choices when buying plans. Let me suggest three policies that we ought to focus on.

One is pooling. NFIB has long advocated that small businesses have the ability to pool their resources in purchasing insurance. Pooling shows individuals to have honest power and administrative costs reduce the risks which in turn decrease the costs.

Secondly, insurance market reform. National insurance rating rules are long overdue and will provide small employers with a marketplace that more closely reflects the large competitors that they get. For instance, the reforms are especially crucial for small group marketplace because they experience the greatest lack of choice and the most significant premium volatility.

Take our plans, for example. Individual coverage through our PPO operation has increased from 406 a month to 747 a month in 2008.

Let me introduce this. My insurance consultant came up with this. I think you all have it. Let's introduce that into the record here if we might.

Chairwoman VELÁZQUEZ. Without objection.

Mr. NICHOLSON. Family coverage is even worse. In 2004, the coverage was \$1,157 a month. Today it is \$2,092. So you can imagine that very few pick up that plan. None of our employees do

The third point is the tax based incentives. Tax incentives can come in a variety of ways, including our tax credits and equalizing tax treatments. Currently, we do not have equal tax treatment as the employer's family. We do not get to deduct the cost of our health insurance the way we are able to deduct the cost of our employees' insurance.

The SHOP Act is one approach that NFIB suggests. The Small Business Health Options Program is an incremental approach that includes pooling, insurance for form and some tax based incentives.

As Congress works on these reforms, it is important to suggest how new approaches can hurt rather than help. NFIB has identified four potential roadblocks, but for time purposes I want to cover only three. One is employer mandates. We oppose employer mandates in any of these forms.

Secondly, public option, NFIB has long advocated that Americans ought to continue to receive their health insurance and health care through the private sector so that opposition to a public option is a direct reflection of the NFIB members' belief that coverage should be obtained in a better private section. I just do not want my health coverage operation run by efficiency like the Post Office or IRS with its police attitude or even the huge Amtrak costs. Those do not add up to what we want out of health insurance.

And finally, caution. Do not put coverage ahead of cost containment. What we are going to be talking about today has to do with how we can work our side of the issue, but the most important thing, without question is to have cost containment. You have the power; we do not have the power. You have the power to lean on the whole process, the doctors, the hospitals, all the rest of that side of cost containment. It is most important.

Thank you.

[The prepared statement of Mr. Nicholson is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Nicholson.

And now the Chair recognizes Mr. Graves for the purpose of introducing our next witness.

Mr. GRAVES. Thanks, Madam Chair.

Madam Chair, I would like to introduce Brad Thompson, who is the president of Inland Press located in Detroit, Michigan, and he is testifying today on behalf of the Printing Industries of America.

He was born and raised in Michigan. He is the fifth generation of his family to lead this publicly traded Michigan company, and thanks, Brad, for being here today. I appreciate it.

**STATEMENT OF BRADLEY L. THOMPSON, II, INLAND PRESS,
ON BEHALF OF THE PRINTING INDUSTRIES OF AMERICA**

Mr. THOMPSON. Thank you.

Chairwoman Velázquez, Ranking Member Graves, and members of the Committee, good afternoon, and thank you for inviting me to testify today.

I am Brad Thompson and the president of Inland Press, a Detroit company engaged in both the commercial printing and the newspaper businesses. I am also here as Labor Policy Chair of the Printing Industries of America. Printing Industries is proudly headquartered in Congressman Altmire's district

Inland Press has been in operation for 114 years. We have provided health insurance to our workers since 1934. Today we employ 115 full-time employees, 25 of whom are union workers. We provide family coverage to all of them.

While health benefits are a tool to attract and retain a qualified work force, many small business owners feel a moral obligation to provide health insurance. I strongly agree. In April our annual health insurance renewal was nearly a 12 percent increase, the fifth year of double digit increases.

To put this in historical perspective, in 2003 our health benefit costs averaged \$4.86 per employee per hour. this year it will be nearly \$11 per hour. That translates to nearly \$600 per month for single coverage and almost \$1,600 per month for family coverage.

Our union employees are paying more than ever. Their contributions range from 55 to \$70 per month. In comparison, average printing company employees are now contributing at a much higher, 90 to \$350 per month.

In 2007, we paid more in health care premiums than our printing company earned in profit. The fallout from this has been that we have frozen hiring just because the employee benefit costs are just too high. Like many, we have tinkered with adjustments in higher copays, but minor adjustments are just not enough any longer. Real reform and solutions are necessary.

I would like to comment on four policy solutions I hope you will keep in mind. The first is pooling. The idea of small companies pooling together to achieve greater economies of scale is valid and it works. I encourage Congress to keep the pooling concept alive. Ideally, this would include the ability to pool across state lines.

Tax credits as an incentive to small businesses to provide health benefits is a great idea, and our industry would strongly support this. As you examine these credits, I urge consideration of the following: number of employees. I have seen 100 floated as a cap on the number of employees for eligibility of a tax credit, which would render Inland and other printers my size ineligible. Increasing this number to 200 or 250 would insure more workers and prevent small firms in our industry from choosing between job growth and losing a tax credit.

Wellness programs. While connecting a wellness program to a potential tax credit is a good, common sense idea, it is important to consider the burdens this might have on small firms. The tiniest printers may not have the resources necessary to implement a program, and are often the ones most in need of a tax incentive to provide health benefits.

Other space operational hurdles. In our newspaper operation, I have 60 employees spread out over ten locations which could make it challenging for us to implement and administer a program. There is probably a solution there, and I urge Congress to consider these practical questions.

Hours of work week. Recent studies cite that the majority of employers use a 30-hour work week as a cutoff for health insurance eligibility. So I would encourage the same standard to apply as regards tax credits. Again, this would lead to more insured workers.

I hope Congress will consider the need for increased competition in the products offered in the health care marketplace. It is key that both owners and workers at small printing companies have flexibility and choice in what insurance best fits their needs and budgets. When it comes to competition and choices, more, more and more.

The three policies suggestions I have given are positive ones, but I must address one proposal which most small printers are very wary: government mandated health insurance. Whether it would be state mandates, mandated minimal levels of coverage, or pay or pool structures, there is a real concern about cost increases outweighing the noble goal of insuring more Americans. It also creates serious barriers to entry for very small and start-up companies.

Again, thank you for holding today's hearing and inviting me to testify. I look forward to answering any questions you may have.

[The prepared statement of Mr. Thompson is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you very much, Mr. Thompson.

Mr. Castiblanco, I would like to address my first question to you. The economy has placed significant strain on small businesses and many are barely able to keep their door open, let alone provide health insurance. How would you respond to critics who claim that an employer mandate would cause job losses and put firms completely out of business?

Mr. CASTIBLANCO. About a mandate, I feel if you provide good choices, really good options, options that would decrease the prices of the insurance and options that can guarantee long-term solutions, I think we are going to recover the truth in the system. I think the word "mandate" is a word that nobody likes, but if you push us to trust the system, a system that is going to guarantee that the cost is not going to increase again in the future, we are willing to contribute.

I think when I talk about shared compromise, we are talking about we as employers we have to do our part, and employees, and the government, too, and we have to regulate the market. How are you going to make sure that the rates are not going to increase later? I think if we have a public option, we can control. We can provide that competition.

We as small business, we do not believe in the private insurers. So that is the way to recover that word "trust."

Chairwoman VELÁZQUEZ. Thank you.

Mr. Nicholson, as an employer who offers coverage, can you discuss your concerns about an employer mandate for small business?

Mr. NICHOLSON. For unemployment coverage as we now provide?

Chairwoman VELÁZQUEZ. As an employer who is offering health insurance now, can you discuss your concerns about an employer mandate?

Mr. NICHOLSON. Oh, an employer mandate, yes. You know, we believe that an employer mandate problem would exist much in the

way that I look at, for instance, the Social Security system, always in favor of it, but over a period of time where there are benefits.

Not this group of politicians, but prior ones and others to come will have the opportunity to change. That changing is very difficult for us to accept in the long term.

Secondly, as I outlined, the government run mandate would be probably quite difficult to handle, and secondly, you know, if I get angry at Aetna or somebody of that nature, they do not throw me in jail. When I get angry at IRS, they can throw me in jail, a big difference.

Chairwoman VELÁZQUEZ. Okay. So let me ask you. If we fail to have some type of health care reform, the consequences could be severe, and if premiums go up by over 100 percent in the next decade, as they did in the last decade, what will be the impact on small businesses and job creation?

Mr. NICHOLSON. Oh, tremendous, no question about it. But that is why I concluded my statement by saying we look to you because we are unable to do it, look to you all to lean on cost containment, and we believe that if the costs are kept relatively level, not increasing this huge amount that you point to, if they can be kept that way, then we can work with private insurers to get the best competitive rates possible.

Chairwoman VELÁZQUEZ. Okay. Mr. Thompson, nearly all of the reforms being discussed include the creation of a health insurance exchange. One of the debates in Congress is whether there should be a public plan. Do you think that an exchange without a public plan option can be structured in a way to make insurers compete?

Mr. THOMPSON. I am not entirely familiar with that proposal. What I would think, that with the right direction from Congress, that the private industry should be able to and the private insurers should be able to provide that sort of thing.

Our emphasis is on choice in allowing the employers and the employees to make proper levels of choice. I guess I would sum it up that way.

Chairwoman VELÁZQUEZ. Mr. Wordsworth, do you have any comment on that?

Mr. WORDSWORTH. Yes, I do from the standpoint of mandates, and in my particular company I can speak to that. We are a hospitality company. We have a low profit margin, and three and a half percent nationally is what hospitality companies pay restaurants, prior to the last couple of years.

But in my company we pay 25 percent of premiums for the first six months, and we have a transient kind of business, but we do. After one year, we pay 50 percent of the premiums, their choice of premiums, and they can include vision and hearing and life insurance, and then after that, ten percent each year up to 80 percent max, including my wife and I.

So if we already pay 80 percent, and it is a great program because it helps us in our retention, and we just do not lose employees; there are many 25-year employees; why would a mandate be a good thing? Mandate equals forced, equals required.

Chairwoman VELÁZQUEZ. Are there ways to increase coverage without some kind of mandate, individual or otherwise?

Mr. WORDSWORTH. Are you talking about nationwide?

Chairwoman VELÁZQUEZ. Yes.

Mr. WORDSWORTH. Or within my company?

Chairwoman VELÁZQUEZ. And in terms of the health care, yes.

Mr. WORDSWORTH. Yes. Cost is just enormous. I have not heard anybody say anything about lawsuits and malpractice costs, and if you are doing a comprehensive reform, you have to include the cost of malpractice, and so cost is the biggest issue. It certainly is for me, and I think it is for most other people.

In a small business, you know, your employees are like your extended family. They are not your family, but they are like your extended family, and so it is in your best interest to do everything you can to keep a symbiotic relationship.

Chairwoman VELÁZQUEZ. Thank you.

Ms. Burkholder, you noted that your health care costs went up 22 percent in the last year and now make up ten percent of your gross revenue.

Ms. BURKHOLDER. That is correct.

Chairwoman VELÁZQUEZ. What will you do if reform fails and this trend continues over the next few years?

Ms. BURKHOLDER. We may be forced to cut employees, cut their time, go out of business because there is a limit to what we can charge our customers, and you know, at that point we may just drop insurance altogether, and that would not necessarily be good for our company because seven of the members of this company are all family.

[Laughter.]

Ms. BURKHOLDER. We believe in nepotism. And so in addition to caring about our extended family, as Mr. Wordsworth mentioned, which we do very much, you know, we really do have immediate family members who would be suffering as well. So it would be a very serious thing for us.

Chairwoman VELÁZQUEZ. Thank you.

Now I recognize the Ranking Member. I will come back with some more questions.

Mr. GRAVES. Thank you, Madam Chair.

You all mentioned, everybody here has mentioned that you want to provide health insurance for your employees. In some cases you can; in some cases you cannot. But cost is obviously the number one issue out there, and you know, we hear about mandates and you all have kind of touched on it a little bit, about what a mandate would do to you, do to your company.

And then we also hear about maybe the possibility that if there is some sort of government option, that it is going to provide an opportunity to be lower. But if we look at the way the government has run Medicare and the way the government has run the VA health system, you know, we hear complaints in my office all day long coming in about the problems associated with the coverage from Medicare or even throw Medicaid in there, too.

And look what the cost of that is. The VA system alone in the last decade, you know, we have doubled the expenditure, more than doubled the expenditure at least in the last eight years, over the last nine years, to the VA system, and the costs just continue to go up. There is a government run health care system right there.

So if you have a situation where, and I will ask all of you, if you have a situation where you are mandated to provide that coverage and those costs continue to go up, you know, in even the government system, obviously what is that going to do to you?

And I guess some of you have already answered that. You know, it is unfortunate, too, because we have not really gotten a chance to talk about the Chairwoman's bill and my bill with pooling because I think it offers great opportunity. If you have got a business with ten employees or seven employees, it is pretty hard to go out and get health insurance, but if you can pool together with 100 other businesses with seven employees or ten employees, your buying power just got a whole lot better.

It was touched on, obviously, too, when you talked about medical malpractice reform, which is a huge cost driver, but I guess, you know, we are kind of talking today about these mandates, and I just want, you know, what is the one thing it is going to do. Are you going to be able to stay in business or are you just going to quit business? Are you going to drop employees? What are you going to do? just the quick answer, if you are mandated to do this.

And I do not see any reason why costs are going to be contained just because the government has an option out there. I think it is just going to make it worse.

We will start with you, Mr. Thompson.

Mr. THOMPSON. Yes, Ranking Member. I think that we would continue to do everything in our power to keep our head count down, reduce our employment levels. We may invest in more technology than we already have, but obviously as health care costs rise, we just look at every other way we could continue to maintain our business and keep reducing the employee cost, which means we are going to hire less people or lay people off and reduce our head count on a continuing basis.

I do not want to do that. I have been in my community for, you know, nearly 115 years. My family started the business. I mean, I have deep, deep ties. I want to hire people. I want to hire a lot of people. It is one of the stakes in our business. You know, I have shareholders that I have as stakeholders. I have the community. They are stakeholders.

So we want to do this, but we do not have any choice. I have to be profitable. I have to report to shareholders the demand that we be profitable or do not lose money. So we will do whatever we can, and if it means cutting head counts, that is what we will have to do, but it pains me terribly. I mean, that is the worst thing I can possibly do in my business, and I do not want to do that.

Mr. GRAVES. Mr. Nicholson.

Mr. NICHOLSON. Yes, I guess we are talking about mandates without getting into the details of how you administer the mandates, and I think we have to look at some of those if we are going to examine a mandate program.

But one of the things, for instance, that we have done when we ran into a similar situation where we were going to take a government contract, which we eventually decided not to. One of the problems was that we realized we had to go out and hire independent contractors to get accomplished what we were going to do, and that

took them off our payroll so that we could then meet some of the federal restrictions on payroll and cost plus and so on and so forth.

I suspect that if we end up with some sort of an employer mandate, there is going to be an awful lot of looking closely at all of the little, tiny details, and to me the way you handle that, if I were in your shoes, would be to require the private insurers to have the mandate restrictions, but let them negotiate with us employers so that we can then not get into trying to find a way around this or that and make them responsible for getting the various objectives accomplished by what you want to have done.

Mr. GRAVES. Mr. Castiblanco.

Mr. CASTIBLANCO. Well, I believe before we get a mandate, if we keep the private insurers working like they are working until now, we will have to close our business, our small business. I would not be able to afford that mandate in that way.

But I want to insist that the public option would be one extra choice. I mean, I want competition for private options, and I think if we can lower the cost of insurance, 47 million people would be recruited to the system, and I think that would be good not only for the public option, but also for the private insurers. This would be really good business for everybody.

Well, in that case, a mandate would be possible. We would be willing to put up part of the funding in this process as small businesses, but if we do not have real choices, that would be catastrophic.

Mr. GRAVES. Ms. Burkholder, yes.

Ms. BURKHOLDER. Okay. Well, you know, we could probably live within a mandate as long as the prices did not increase, but I do not think that is a guarantee that, you know, those costs for health care are going to be maintained at a reasonable rate unless there is a regulation covered that sets that.

And short of that, you know, our company cannot afford what we are paying now, let alone paying more. and, yes, you know, our company is in the medical business, not the insurance side of it because what we are making are the leading edge devices that are used by researchers for scientific advancement and in particularly the medical field and particularly in the neurological area.

If we cannot keep our engineering staff and our existing shop staff to manufacture new devices, let alone continuing to make the existing ones, then you know, our purpose and our service to this country and the rest of the world is basically voided.

Mr. GRAVES. Mr. Wordsworth.

Mr. WORDSWORTH. I think one of the great things about this country and regarding what I do in hospitality and food service is the great quality and diversity and safeness of our food and the way we serve it. I think in my business, not necessarily mine, we use all fresh ingredients and we prep there. Locally we use our staff. I think you would find people either cutting services, perhaps cutting quality, perhaps losing attention to safety, now not in my business, but I think those things would happen.

Now you have got drive-in, carryout, home delivery, walk-up, sit-down, fine dining. I think you would find a great consolidation of all those things in products and services, and our variety would be lost, I think, secondary to just cutting employees.

I mean, where you today have eight employees doing a job, you would spend all of your time finding a way to have five do it, have it automated, or to outsource it. Nobody likes outsourcing, but you know, the math is just the math, and hopefully this is not the only focus of the Small Business Committee. I know this is not a health care discussion, but I just feel compelled to bring it in. Hopefully you would look at the holistic things that are happening in small business right now. Many of the proposals, including card check and those kinds of things, I mean, they have merit on your consideration on just how much weight a small business can take.

And health care is a high, high cost. I am very proud of the health care we provide. Like I say, I do not have any pilferage. My employees stay with me. I get my money back. It is a great investment to invest in the employee versus the building. But I think you will find a real suffering in the quality and delivery and safety in a national plan.

Mr. GRAVES. Thank you.

Chairwoman VELÁZQUEZ. Ms. Clarke.

Ms. CLARKE. Thank you very much, Madam Chairwoman, for holding this very timely, important and relevant hearing on addressing comprehensive health care reform from the small business perspective.

And it is just so interesting sitting here because I guess walking into the room I thought I was going to hear sort of a uniform response, but I feel even more confused now than I did when I walked in, quite frankly, but that is what this debate is all about, to try to find the win-win solutions to what is really a challenge for our small entrepreneurs.

And I think at the heart of it are all of the concerns that each of you have raised, and so I just want to raise a couple of questions with each of you because, again, I am hearing different perspectives, and I guess every business is as unique as the person who has started them or the family that runs it, and the people that they employ.

On the one hand, I have heard concern about health care remaining in the domain of the private insurer, and it is my understanding that the private insurer has been part of the challenge in terms of the cost containment.

So the question becomes with an expansion of health care choices or option, I think that in listening I heard commentary about concern about government, I guess, running the public option. That is not what I have necessarily heard about a public option. I have heard about public investment in a health care option.

And I was wondering if anyone had any ideas about how that public investment in a health care option could be employed in a way in which it creates win-win. Because I am not sure that I would want government, you know, handling my health care either. I have health care insurance through the federal government, but I go to a private insurer to have that health care delivered to me.

Has any of you, and I would like to get all of your feedback on that, given any consideration to that just very quickly, about if there were public investment for health care, how it would best be utilized as opposed to the government actually, you know, giving

the service itself, but working as we do in most areas as a contractor that subcontracts out that health care benefit to the benefit of small business?

Mr. NICHOLSON. I could try to answer. I think I mentioned when we were talking about mandates that if you define what it is that we are talking about in the mandates, get some of the specifics, I think it might make sense to then package those specifics and lay them on the private insurer table and say, "Okay, guys. We want to have this objective, that objective," whatever, that are part of what we are talking about as a mandate, and then get a reading as to, all right, some of that is going to cost money. How much public funds are we really talking about and do we really want to have, do you all as politicians, frankly, want to have subsidy going to private insurance companies to make sure that some of those mandates get accomplished?

Ms. CLARKE. And I know someone else may want to respond to this. What about the nonprofits that as a deliverer of health care and how would you see that?

I am just trying to get small business to be a part of how we make this happen versus, oh, government cannot do this or whatever. Do you know what I am saying? I am just trying to see how we create as many choices as possible, and my time is winding down. So whatever may be coming from your mind creatively, please let me know.

Mr. NICHOLSON. Let me amend that. When I say "private," I mean also the nonprofits.

Mr. THOMPSON. I think that, you know, there are ways to bring health care costs down, you know, technology investment and that sort of things that the government could well do perhaps to help bring the tools into the health care arena to help bring costs down. That would be good.

Part of the problem we have now is that government regulations do not allow us to shop our insurance in areas we may want to go shop or, you know, the pooling concepts that we have talked about earlier. So we feel like we are a little handcuffed by government regulation. So if some of that was changed, we might be able to get more aggressive in the marketplace.

But I do think that the government could provide tolls to either the insurance companies or the health care industry overall that could help bring those costs down that would then benefit all of us and bring our insurance rates down through the insurance companies that we are currently utilizing.

Chairwoman VELÁZQUEZ. Would the gentle lady yield?

Mr. Thompson, do you believe that small businesses should have the ability to pool together, be part of any legislation?

Mr. THOMPSON. Yes.

Chairwoman VELÁZQUEZ. Okay. Thank you.

And the time has expired. I recognize Mr. Coffman.

Mr. COFFMAN. Thank you Madam Chairman.

And thank you all so much for coming here today. This is such an important topic, and having been a small business owner, I remember the struggles of trying to fund a health care plan. I got up to 50 percent, but only for the employee and not for the family. It

did not cover the families. They had to make up the difference for that, and that was unfortunately the best I could do.

Mr. WORDSWORTH—I said it right—you said something in your testimony about that you do not think that the government, and I might have misinterpreted this, ought to have incentives for the individual to steer them away from an employer based system.

Am I right in that interpretation or did I get that wrong?

Mr. WORDSWORTH. No, that is what I did say. If the government has a program; and there are discussions about the government either having an insurance company, or having government programs, if those programs or any kind of government incentives took it away from the employer or actually paid employees, you could have paid by reduced premiums or whatever, away from the concept of employer-based insurance coverage, I think that would be damaging to the system.

Mr. COFFMAN. Okay, and maybe somebody else may want to comment on this. I am not clear on why it would be damaging. If we gave tax incentives, say, to the individual to purchase their own insurance, to make their own decisions and not to be relying upon the employer, what do you think would be wrong with that?

Mr. WORDSWORTH. If they were incentives to the individual?

Mr. COFFMAN. To the individual.

Mr. WORDSWORTH. I think that would require a little bit of study, and I do not feel qualified on that very question.

Mr. COFFMAN. I understand. Okay. Would anybody else like to comment on that? Yes, Mr. Nicholson.

Mr. NICHOLSON. Are you talking about individuals being mandated?

Mr. COFFMAN. No. Following tax incentives to the individual, even tax credits to those who do not have the capacity to purchase insurance due to their income, but shifting from an employer based system to a system whereby the incentive resides with the individual. It could still reside with the employer, but right now we really do not have incentives to the individual to purchase their own insurance, and maybe if any of you would like to comment on that, please.

Mr. NICHOLSON. I think it is a grand idea. We looked into it and tried to figure out a way to do it. The problem, of course, is that our youngest employees would much rather spend \$120 a month on beer than on health insurance.

Mr. COFFMAN. No question about that.

[Laughter.]

Mr. CASTIBLANCO. I would say the problem that concerns me is who is going to control the increases in the cost of insurance. We need that long-term solution. So I think those tax credits are not going to be the real solution. The prices are going to increase eventually.

Mr. COFFMAN. Let me say I think the problem with having a public option is that what happens with everything in Washington is the government just runs red ink. We just borrow, and that is how we fund it, and so somebody else is paying for it.

But I do think that there is not competition in the marketplace right now because there is not transparency and there is not an ap-

ples-to-apples comparison, and maybe the exchange issue will help with that.

Would anybody else like to comment? Yes, ma'am.

Ms. BURKHOLDER. Okay. I do not see a huge problem with having a system similar to the one that the federal government uses for its health care program because there is a group that goes out on the marketplace and bids on contracts to cover various aspects. Even that has been increasing I know.

The other issue is that what we have been talking about today do not necessarily over the problem that occurs when an employee leaves a particular job for another one either because they choose to and they are going to a new employer or because they have been laid off because of the economy. And you know, one of the issues here that we have been talking about today is that in small businesses dropping the coverage or delaying hiring, that is going to prevent our economy from recovering, and that is something that we need to do right now.

Mr. COFFMAN. Okay. Yes.

Mr. NICHOLSON. And I think we are generally agreed that well-being, taking care ahead of time is an ultimate goal. I am not sure that as a small businessman I can perform a nanny service on just a few employees. Now, if I had 150 or 200, I could afford to get a gym facility, you know, that kind of thing.

So I think if we are going to shoot toward wellness coverage, which makes a great deal of sense, I think we have got to really figure out how to get the individual assistance worked out properly.

Mr. COFFMAN. Thank you very much.

Thank you, Madam Chairwoman.

Chairwoman VELÁZQUEZ. Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Chairwoman.

Thank all of you for being here as well. As a small business owner, Mr. Burkholder, as a family-owned business, we face that situation every day. So I understand your dilemma.

You know, small business owners are the ones that make this country what it is today, and it is interesting that we seem to continue to pile more situations onto small business folks, and this is just one of those. You know, small businesses really are hanging on by a thread. It is a very tenuous situation for them in general right now, and this is a situation where hopefully with this bill that is being proposed by the Chairwoman and Ranking Member, with pooling we will be able to hopefully find a way to minimize some of the impact of these increasing costs.

Through the day we have got to find a way to control costs. I mean, that is the general objective here, and to do that, you know, we have all got our ideas, and I am concerned about some of them, but I think, you know, we are here today to discuss the bill itself to an extent, and I was just curious. I assume that all of you are for it or is anybody against it, have any reservations about pooling for small business folks?

We will start with Mr. Wordsworth.

Mr. WORDSWORTH. Well, I do not know how you would relate this to the old association health plan proposals if you are one of those AHPs, but the concept is a terrific concept because it does allow you to gather critical mass and get the attention of the insurance

companies. Large companies can do that, even the companies that are not large enough to self-insure, and we small business just cannot do it.

I mean, an insurance company is uninterested with someone who has, say, seven employees as they are with someone with 700, and I liked it organized by industry. If you pooled by industry, let's say, in food service, it gives the insurance companies much better data to get their arms around to even bid on it, rather than mixing me with an aircraft company and, let's say, a landscaper. The risks and those kinds of things are so much different industry to industry.

The other thing I will just add is I do not hear any reward for wellness, and I really believe the future of our health care system is not on the back end, in repair, but I think it is on the front end in prevention. And I think that is also time for the government. A great term I love to use is "meddle." The term is "meddling." I think the government should meddle in rewards to help facilitate this approach.

Chairwoman VELÁZQUEZ. I am with you, sir.

Mr. WORDSWORTH. Good.

Chairwoman VELÁZQUEZ. I am with you.

Mr. LUETKEMEYER. Thank you.

Ms. Burkholder.

Ms. BURKHOLDER. Okay. There again, I think if we do not pool, then what happens is that the size of the group is greatly diminished. For example, with small businesses right now, that group is the size of that business. We employ a total of 15 employees. Six months ago we had 18, but because of the economy, we have had to cut back.

Now, the other thing is that in terms of pooling, we need to have larger groups because if you look at what is happening in the western Maryland area, there are now only two companies that provide health insurance coverage. There is no competition. And if there is not going to be any competition, then we as small business owners need to have a means of fighting back against that.

Mr. LUETKEMEYER. Very good.

Mr. Castiblanco, I was just curious whether you were supporting the bill that we are discussing here today or getting information as far as pooling of like businesses to try and find a way to cut costs. Is it something that will work for you?

Okay. That is fine. Mr. Nicholson.

Mr. NICHOLSON. I am not sure that I want to comment on a specific bill.

Mr. LUETKEMEYER. How about the concept?

Mr. NICHOLSON. The concept of pooling is okay, but let me ask to that. First of all, there is an insurance company that provides coverage for courts, and for a while that was quite advantageous, but then the trial lawyers entered the scene, and we got someone who all of a sudden said that they had an allergy to their flowers, and the next thing you know the cost of the insurance went skyrocketing.

So you have to be careful about how you define your pool.

Secondly, we have been a member of a pool for actually longer than we have had the flower shop, and when we entered after we

passed the underwriting test, we have been a member of that pool ever since, which has been very advantageous for us.

During that last 20 years, I have had two heart attacks. My wife has had breast cancer, and we have stayed the same because we have not had to change our underwriting because of being members of that pool. But the difficulty was that this pool was composed of very small businesses just like ours, and as a result, it had a very good experience, and as a result its rates did not go up quite as much as everybody else, until two years ago because of competition, the consulting industry looked at it and said, "Hey, you, Mr. Employee, with 20 employees can drop your insurance and join this pool, and it will be a lot cheaper for you."

And so in the past year, we have had lots and lots of members joining that pool, but our experience has gone right through the roof because all of a sudden much worse.

And that is why come December my rates are probably going to double. So be careful about the pooling process.

Mr. LUETKEMEYER. Okay. My time is really up. I will yield back to the Chair. Thank you, Madam Chairwoman.

Chairwoman VELAZQUEZ. Mr. Graves, do you have any other questions?

Well, let me thank the members of the panel and let me just say, Mr. Luetkemeyer, our bill, Graves and myself, the legislation that we introduced, the CHOICE Act, basically what it does is it establishes a pooling mechanism that addresses two elements that are responsible for helping insure costs go up, and that is risk and catastrophic cost, and we believe that in any health care reform legislation those elements should be address and that a pooling mechanism should be part of any health care reform that will serve the small business community.

Let me add that I have met with the Committee of Jurisdiction on health care reform; that I have been raising the issues that are unique to small business; the fact that out of the million of uninsured Americans are employees who work for small businesses; and that in a way the health care problem that we are facing in this nation or the lack of health insurance is the small business issue.

And I encourage the members of the Committee of Jurisdiction to continue to listen to the small business community concerns when it comes to health care reform.

So with that let me again thank all of the member of the panel for being here today, and I ask unanimous of consent that members will have five days to submit a statement and to furnish material for the record. Without objection, so ordered.

This hearing is now adjourned.

Thank you.

[Whereupon, at 2:38 p.m., the Committee meeting was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

SAM GRAVES, MISSOURI
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-0515

STATEMENT

Of the Honorable Nydia M. Velázquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: *“Common Ground: Finding Consensus on Health Reform, the
Small Business Perspective”*
Wednesday, June 3, 2009

Whether it’s in political discourse, the nightly news, or conversations around the dinner table, Americans consistently use the same word to describe healthcare—*“broken.”* And that’s exactly what it is. With 47 million people uninsured, there is no question that the status quo is unsustainable. But where do we go from here? How do we chart a new path moving forward? Today, it seems, everyone has different thoughts for doing so. But regardless of those varying ideas, one thing is very clear—if we’re going to fix healthcare, we have to start with small businesses.

There’s a reason we call small firms the backbone of our economy. They employ half of the private sector workforce. When these businesses do well, the whole country does well. On the flip side, however, obstacles for entrepreneurs mean challenges for American workers. In the case of small business healthcare, the challenges are significant. Already, the overwhelming majority of America’s uninsured are small business employees and their families.

In the last year, this committee has held several healthcare hearings. But today’s will be different. That is because both Congress and the Administration are committed to change, and the ball is officially rolling towards reform. Today, we will discuss ways to make sure it is rolling in the right direction.

The call for healthcare reform is nothing new. For decades, Americans have waited for a solution that is both comprehensive and sustainable. It wasn’t until recently, however, that reform took on new urgency. For entrepreneurs, the clock is truly ticking. Already, their coverage costs are 74% higher than they were in 2001. And those rates aren’t leveling off. As a general rule, small business premiums shoot up between 8% and 16% annually. That means they will be even more expensive next year. For small businesses already battered by the recession, these costs have become impossible to absorb.

As rates continue to climb, entrepreneurs are facing tough choices—cut healthcare, or cut jobs. According to the National Small Business Association, 10% of small firms may drop coverage in the next year. That's not a decision any entrepreneur should have to make. After all, a small business workforce is a close-knit community. Already, coverage within microfirms—those with 10 employees or fewer—has dipped to 35%.

In the last few months, Congress has taken steps to help small firms survive the recession. We've made credit less expensive and capital more accessible. But until we've made healthcare affordable, these provisions can only go so far. That's why Ranking Member Graves and I have introduced the Small Business CHOICE Act of 2009. That bill has the potential to reign in healthcare expenses. By cushioning costs and giving entrepreneurs better bargaining power, it promises small firms the best range of possible options.

While there is no silver bullet solution to America's healthcare woes, there *is* opportunity for improving the system. At the end of the day, small businesses need options, and there are several out there. Whether it is pooling mechanisms, insurance exchanges or refundable tax credits, the one thing we know won't work is the status quo. That has become abundantly clear.

In the coming weeks, Congress will begin laying the groundwork for real and lasting reform. It's about time. Entrepreneurs can't afford to wait any longer, and neither can our economy. It is critical that we come to a consensus on small business healthcare. Because until we do, small firms will continue to struggle, and so will our recovery efforts. At a time when we are counting on entrepreneurs to lead us out of recession, we can't afford to hold them back.



**Opening Statement of Ranking Member Sam Graves
Hearing: "Common Ground: Finding Consensus on Health Reform, the
Small Business Perspective"
Committee on Small Business
United States House of Representatives
Washington, DC
June 3, 2009**

Good afternoon and thank you for participating in today's committee hearing. I would like to thank Chairwoman Velázquez for holding this timely hearing.

The rapid rise in the cost of healthcare is placing a strain on many working families and small businesses. Nearly 46 million Americans are without health insurance. Of those, an estimated 26 million are small business owners, employees or their dependents. For those who do have insurance, and can afford to pay the premiums, costs are rising, and there is no end in sight.

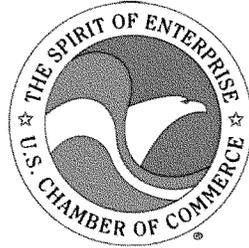
On the other hand, the United States is the leading innovator of newer and more effective treatments for a variety of conditions and diseases that are improving the quality of life for people. Unfortunately, millions of our citizens cannot take advantage of these innovations because they cannot afford good health insurance or are finding that the insurance they do have does not fit their needs.

As Congress gets set to consider comprehensive healthcare legislation, my principal objective is to make healthcare more affordable without sacrificing access to quality care. Price is often the primary barrier to care and to that end keeping frivolous lawsuits in check, ending the tax code's discrimination against the self-employed, and allowing businesses to pool together to negotiate better rates will all be helpful in keeping prices affordable.

We should also focus on more preventive tools and incentives that help providers keep people healthy rather than reimbursing them to treat people when they are sick. Wellness programs, like those mentioned in previous hearings, are a great way to decrease healthcare costs, reduce absenteeism, and increase productivity.

Lastly, I am strongly opposed to a national employer healthcare mandate especially one administered by the federal government. As I have mentioned in previous hearings, mandating employers to offer coverage is a very costly option. According to a NFIB study, a national employer healthcare mandate could cost our economy roughly 1.6 million jobs with small businesses taking on the brunt of those losses.

It is apparent that fixing our healthcare system will be a challenge, but I look forward to hearing what you all think should be included in the final product expected before us shortly. Again, thank you, Madam Chairwoman, for calling this hearing. I yield back the balance of my time.



Statement of the U.S. Chamber of Commerce

ON: "Common Ground: Finding Consensus on Health Reform, the Small
Business Perspective"

TO: THE HOUSE COMMITTEE ON SMALL BUSINESS

DATE: June 3, 2009

The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- numbers more than 10,000 members. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 112 American Chambers of Commerce in 99 countries affiliated with the U.S. Chamber, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. Currently, some 1,800 business people participate in this process.

**Statement on
“Common Ground:
Finding Consensus on Health Reform, the Small Business Perspective”
Hearing before the
HOUSE COMMITTEE SMALL BUSINESS
on behalf of the
U.S. CHAMBER OF COMMERCE
by
James Wordsworth
President, J.R.’s Goodtimes, Inc.
McLean, Virginia
June 3, 2009**

Good morning Chairwoman Velázquez, Ranking Member Graves and distinguished members of the Committee. Thank you for asking me to testify before you today. I commend your efforts in having this important hearing to further understand the impact of health care reforms on small business.

I am Jim Wordsworth, President of J.R.’s Goodtimes, Inc. and the owner of several small businesses. I am here to speak with you today on behalf of the U.S. Chamber of Commerce (“the Chamber”). The U.S. Chamber of Commerce is the world’s largest business federation, representing more than three million businesses and organizations of every size, sector, and region. More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. The Chamber is particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

I have been a member of the Chamber since 1990 and serve as the chair of its Council on Small Business and as the chair of its Labor Relations Committee. I was elected to its Board of Directors in June of 2001.

Company Background

Small business has been a common thread throughout my entire life. I grew up in North Carolina where I worked in a number of small businesses owned by my father, mother, grandfather, and uncles. I moved to the Washington, DC area in 1970 to work as a large computer system’s account manager for Burroughs Corporation.

In 1974, while working with Burroughs, I took my life savings and a small business loan and opened J.R.'s Steak House of Virginia, a small 130-seat fine dining restaurant. As the Steak

House proved successful, in 1978, I opened J.R.'s Stockyards Inn, a 250-seat fine dining restaurant in Tysons Corner, Virginia, and resigned from my 12-year career with Burroughs. Since that time, I have opened a number of other small businesses including two corporate picnic facilities in McLean and Leesburg, Virginia, an off-premise catering company, a marina in Stafford County, Virginia, and a company that designs and builds modular prisons. Along the way, I have also served as general partner in several small limited partnerships that acquired raw land, then planned, zoned, and developed subdivisions featuring amenities such as golf courses and waterfronts.

These businesses combined have close to 200 employees, many of whom are part time, but all who work at least 30 hours a week are eligible for comprehensive employer-sponsored health benefits that even include dental and vision, and life insurance. The employer pays 25% of the premium after the first 6 months, 50% after the first year, and then 10% additional each anniversary – up to 80% paid by the employer. And these increases mean a lot to my employees, because many of them have been with the company more than 25 years. It's a generous benefit plan, especially for a hospitality business, but our employees are our best assets – more so than the buildings and the products – and investing in them is good business. These employee benefits are important to our business because they help with employee recruiting, retention, reducing absenteeism, and maximizing productivity.

Health Reform

As you know, small businesses have an extremely difficult time finding affordable, quality health insurance for their employees. Insurers may not want to contract at all with a small group that employs high-cost individuals, or premiums may be astronomical. Sometimes premiums double more than once in a year. Small businesses must purchase coverage that complies with state mandate laws – laws that raise the costs of insurance for small business, but have no effect on large, self-insured companies. The same insurance policy might cost twice as much in one state as in the next, and small businesses generally cannot purchase policies over state lines. Worst of all, small businesses lack a streamlined way of pooling together to form meaningful risk pools, or to negotiate with insurance companies, further disadvantaging small businesses in the purchase of health insurance when compared to large businesses. Businesses currently pay more than \$500 billion a year to voluntarily offer health insurance to employees, and thus have a major stake in reforming the system.

Due in part to the dire situation faced by businesses struggling to offer or maintain employer-sponsored health insurance coverage, Congress is currently considering some policy changes that could have a profoundly helpful effect on the ability of small businesses to purchase coverage. Congress is also considering some policies that would make things worse, causing more small businesses to avoid providing benefits and hurting the economy.

Positive Steps

The biggest barrier that prevents small businesses from providing health benefits to employees is the cost of insurance. Congress is currently considering many strategies to combat rising health care costs, to bend the cost curve, to make health care more affordable and to

improve its quality. The Chamber applauds these efforts – especially proposals to pay for performance and not just quantity of care, to improve care coordination and explore bundling payments, reduce hospital readmissions, and more. We support robust implementation of health information technology (HIT), increased transparency of quality and cost information, and efforts to support administrative simplification (which will necessitate Congress stepping in and creating some national standards that override state rules). The Chamber continues to support Congress in creating a pathway to FDA authorization of biosimilar drugs, as well as creating an unbiased and apolitical entity to research the comparative effectiveness of different medications, therapies, and procedures. Congress is also considering leading the way by implementing these reforms in Medicare, as well as rooting out fraud and waste in the program. In the long run, these changes are critical to eventually bending the cost curve.

However, Congress is also considering some changes that will be extremely beneficial to small businesses almost immediately. Among these is fair regulation of insurance companies through the creation of a national health insurance exchange (“the exchange”). By setting national rules that require health insurers to issue policies to all comers, preventing drastic variances in the cost of coverage, putting an end to pre-existing condition restrictions, and changing insurers’ incentives from avoiding risk to managing health, Congress will make health insurance much more affordable to small businesses. The Chamber hopes that Congress will not allow the states to restrict such changes to only the individual or micro-business groups, but rather will apply these changes to the entire small-business market – with a national rule made to define to which entities these changes apply.

The exchange could be a powerful tool for connecting individuals and small businesses with insurers, and helping them to shop smart and find the best fit policies. All sizes of businesses should be allowed to participate in the exchange, if they choose to, and it should include pooling arrangements that help spread risk and give maximum leverage to consumers and small business. But it should be up to an employer whether or not to participate – employees who opt out of employer coverage should not be incentivized with credits, and especially not with forced employer contributions to the exchange. Ideally, employers would be able to join ERISA-like plans through the exchange that operate under national, not state rules, and imitate the successful pooling and procedures of the plans currently offered by large companies. Chairman Velazquez’ CHOICE bill would be an excellent step in the right direction, creating a pooling and reinsurance mechanism that could help small businesses control costs, manage risks, and build more predictability into their premium structure.

Small businesses are also grateful that Congress is considering subsidies for small businesses to insure their employees, and to create wellness programs. These subsidies, because of the tax structure and strategies of many small businesses, should be refundable, flexible, and apply to a large swath of small businesses – not just to the smallest micro-businesses.

Steps in the Wrong Direction

Some in Congress, however, are advocating short-sighted changes that will lead to an eventual flight of employers from sponsoring health benefits – a change that would profoundly hurt employees. Currently, employees benefit greatly from the participation of employers in

providing benefits; employers act as negotiators, expert advisors, and trusted advocates for employees before insurance companies. Employers want to offer coverage, but if costs continue to rise, or if flexibility and choice are removed from the process, employers will not be able to continue, or start, to provide benefits.

Euphemistically referred to as “shared responsibility,” many in Congress are insisting on the creation of a mandate that employers sponsor insurance coverage for employees, or be forced to pay into a fund. As discussed earlier, employers want to provide insurance, but many are precluded from doing so by high costs, low profit margins, or insurance market problems. The idea that an employer mandate will increase coverage is illusory, because new rules will not change financial realities for small businesses. Worse, a mandate could cost hundreds of thousands of jobs, could prevent businesses from hiring new workers, or could increase outsourcing and company restructuring in efforts to avoid the mandate. This would have the opposite of the desired effect, reducing coverage rather than increasing it.

Congress might propose to carve out some small businesses from an employer mandate, but in the end these carve-outs tend to shrink and disappear. Proposals in the Senate attempting to target only medium-to-large employers would actually be devastating to small employers, and would have damaging effects even on some micro-businesses. In effect, smaller employers would still likely be swept into these new mandates.

An employer mandate is also not a viable strategy to fund health reform. A prime example of the folly of counting on employer excise fees or taxes imposed as punishment for not providing health insurance is the Massachusetts health reform plan. Since the plan’s inception, Massachusetts has collected only a minor fraction of their estimated income from employer fees, which has added to the program’s overall massive shortfalls. If employers are forced to foot the bill for health reform, these costs will be passed on to workers – certainly not an ideal recipe for economic recovery in these trying times. A better option would be to create an individual obligation to obtain health insurance; this would bring market forces to bear on employers. Employers who wanted the best talent, and to be competitive at all, would have to do their best to offer benefits that satisfied the individual obligations of potential employees – and those employees they want to keep!

Another area that could prove problematic is Congress’ designation of a minimum level of insurance necessary to satisfy any individual or employer requirements. Minimum standards for benefits need to be truly minimum – let the standard fall somewhere in the vicinity of having coverage for catastrophic events to avoid medical bankruptcy (high-deductible plans) and having coverage of preventative services. It should be the purview of the individual, or the offering employer, whether or not to offer benefits beyond this. Surely many businesses would continue offering generous benefits in order to invest in and maintain a quality workforce.

Ideally, if Congress puts in place aggressive insurance market reforms and a robust exchange, a government-run health insurance company will be unnecessary. However, any new public program must compete on a level playing field with private insurers. Employers of all sizes have serious concerns about the consequences this could have on the insurance marketplace, on employer-sponsored coverage, and on the nation’s finances. A public program

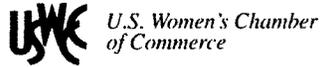
would have to be on exactly equal footing as private insurers in order to compete fairly, and reasonable people can disagree as to whether it is possible for Congress to be at the same time both the referee setting rules and a team owner competing. Employers currently see a huge cost-shift from public programs like Medicare and Medicaid (a recent Milliman study found this cost-shift to be 20-30 percent), and a large new public program could have dire consequences for employer costs. Worse, Medicare and Medicaid currently have vast unfunded obligations, and creating a new program that could take general revenue transfers and was not walled off from public financing after its initial founding would be mortgaging our grandchildren's futures.

The Chamber also has concerns about proposals to tax employee benefits – Congress should keep in mind that capping the employee exclusion has been a long time goal of policy wonks who believe that a national, standardized cap will lead to reducing regional variations and lowering the costs of health care and insurance coverage. However, proposals to cap or eliminate the exclusion only for high income earners represent a “soak the wealthy” mentality that is unhealthy for the nation's fiscal policy as well as useless from a health policy perspective.

The funding challenges of health reform legislation may in fact be overstated; rather than attempt to completely offset the costs of health reform legislation at the get-go, Congress should factor in the vast savings that can be obtained by covering the uninsured, reforming entitlements, and building a more affordable, quality-driven health care system. The Congressional Budget Office operates under severe restraints that prevent it from taking into account any savings that would be realized outside of a small budget window, that does not account for clinical predictions, and thus does not depict an accurate cost and savings scenario on the subject of health care legislation. Congress should avoid getting bogged down trying to fully offset legislation, and focus on passing reform legislation that has broad support from both sides of the aisle and important stakeholders, including premium payers.

Conclusion

The Chamber is eager to work with Congress to enact, this year, comprehensive health reform legislation. We believe it is imperative to take action to control health care costs and give more Americans access to sustainable coverage – especially those who work for small businesses that currently are not able to offer health insurance benefits. That being said, the business community will not support reform for the sake of reform. Congress must work with stakeholders, build bipartisan support, maintain fiscal responsibility, and operate according to the oldest principle in health care: first, do no harm. As Congress continues to explore ways to increase access to coverage, bend the cost curve, and reform government programs, the Chamber looks forward to ensuring that the goals and priorities of small business are taken into account.



**Testimony
of
Joan Burkholder, CEO
Crist Instrument Co., Inc.
on behalf of the
U.S. Women's Chamber of Commerce**

Before the House Small Business Committee

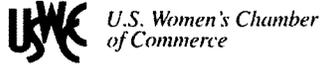
**"Common Ground: Finding Consensus on Health Reform,
the Small Business Perspective"
June 3, 2009, 1:00 PM**

Chairwoman Velázquez, Ranking Member Graves, Members of the Committee. I am here today as a member of the U.S. Women's Chamber of Commerce representing our 500,000 members and the millions of American small businesses who are struggling to provide health insurance for themselves, their families and their employees.

The employer-based health care system in this country has become a travesty. This unique system began as a response to wage controls and a tight labor market in World War II, when employers sought to lure workers with tax-free fringe benefits that were exempt from government-imposed wage controls thought to aid in the war effort. Subsequent tax legislation strengthened the system over the years, allowing businesses to deduct employee health insurance premiums as a business expense, for example.

While these business incentives did succeed in increasing the number of Americans with health care coverage, this strategy was ill-conceived on a number of levels:

- It particularly disfavors small and medium-sized businesses that do not represent a large risk pool of insured employees.
- It leaves out self employed or unemployed individuals, who either go without coverage or are left to seek individual policies where risk is essentially not pooled at all.
- It contributes to inflexibility in the U.S. workforce because coverage among and between companies varies greatly, and employees with coverage are apprehensive about job change for fear of losing coverage or ending up with inadequate coverage at a new, potentially better job.



U.S. Women's Chamber
of Commerce

- It distorts the health care market because employees tend to see coverage as a “gift” from the employer, and so do not have a shared sense of responsibility in their health care choices. Those employees fail to realize that those health insurance premiums being paid by their employer are actually holding down their wages, because employers rightly see health coverage as part of a total compensation package.

The primary responsibility of any business is to their shareholders and the bottom line. As we consider sweeping reforms to our approach to health care in America, we ought to ask, “Why should an employer, who cannot and should not have the interests of patients, or doctors, or hospitals in mind, make health care and health coverage decisions that affect people and entities that are beyond their sphere of interest?” And further, if we continue with the existing model, logistically, how can health coverage become truly portable as employees move from job to job?

The problems I see as a small business owner are as follows:

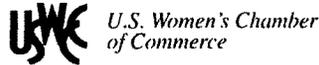
COSTS: Costs have been spiraling for small businesses for a number of reasons.

Small Businesses premium costs are based upon the average age of the employee group, the size of that group, and the historical health care costs of that group. As the employees age (which is inevitable, particularly given the U.S. demographic profile), older employees often develop chronic health problems, and as overall health care costs increase, small businesses bear an increasingly heavy burden.

The affect on small businesses and their employees as a result of spiraling health coverage costs is multi-faceted. Many firms simply drop out, no longer able to provide employee health insurance due to cost. This leads to an exodus of good employees seeking employment where health insurance is offered.

In the case of my company, we continue to provide coverage, but have asked employees to pick up more of the cost. We are not alone in this practice. As the employee share of premiums has increased, more employees are opting out of coverage. Today, only 73 % of our employees are covered under our company policy. This year, we've asked employees to pay 60% of the premium payment, thus decreasing their real income. If we have to ask them to cover even more next year, fewer will remain covered, shrinking the size of our group and thus driving costs up even more, as only those with chronic conditions will opt to continue coverage.

Last year the total cost for coverage of only 11 employees was a whopping 10% of our Gross Revenues. It ate up every bit of the profit we should have made and then some. Last year the increase in health insurance rates was 22 %. Even worse, we've been informed that the rates are set to increase by another 10% in August of this year. How can Health Insurance be affordable when an employee earning \$300.00 to \$500.00 per week pay for premium coverage for their family when that cost is \$854.00 per month? How can a Small Business owner afford \$854.00 each per month for all of their



employees and still stay in business? Frankly, short of any catastrophic health issue our firm could pay for normal health maintenance for all of our employees for less than we are paying for 73% of our staff now.

AGE AND SIZE DISCRIMINATION: Small businesses are being forced to discriminate in their hiring practices to continue health insurance coverage for employees.

America's work force is aging, and some of the most experienced, best workers are over 40. Insurance rates begin to increase dramatically for persons over 40. Yet the imperative is to hire the younger, less experienced, less productive worker, because his or her insurance costs will be much lower. This is unfair to older workers and costly in terms of productivity for the firm. It is discrimination. Perhaps difficult to prove, but I can assure you based on conversations with other small and medium-sized business owners that age is influencing employment decision making. Health coverage is to blame.

And let's be clear, small and medium-sized businesses are bearing the brunt of substantially higher premiums, because they are made up of smaller groups where risk is not adequately spread. This is discriminatory to this class of business.

DELAYED AND CANCELLED HIRING: Substantial, increasing and unpredictable health care costs force small businesses to delay or cancel new hires.

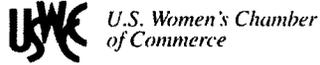
At a national level, this substantially reinforces the continuation of the current recession. It reduces possible re-employment of laid off workers. It diminishes our ability to increase sales. It weakens customer service. The ultimate result is forestalled growth of our business and our economy. New product development and innovation is curtailed, leading to a loss of competitiveness.

LACK OF COVERAGE:

Layoffs, high premium costs, lack of an employer-sponsored health insurance plan, lack of family coverage where employer-sponsored plans are available all result in lack of coverage for millions of Americans. Those without coverage either must pay out-of-pocket for health care, or all too often, face unmanageable expenses that lead to bankruptcies and cost shifting in the system.

MEDICARE BENEFICIARIES PAYING AN INCREASING SHARE OUT-OF-POCKET:

Medicare does not cover all of their expenses for beneficiaries. And while overall per-patient Medicare spending has increased, the percentage of total costs covered by



U.S. Women's Chamber
of Commerce

Medicare is decreasing; leaving beneficiaries to pay increasingly out of pocket or relying on Medicare Supplemental policies to make up the difference. Beneficiaries end up spending down resources until they qualify for Medicaid, in cases where they require long-term nursing care.

My husband and I took care of his mother in her later years and then my mother. They had Medicare; but it covered only 44.8% of their health care expenses. Today, Medicare covers only 41.1%. We paid the rest out-of-pocket with after tax dollars. Further, as they aged, the care provided tended to poorer than that provided to younger persons with the same health issues. When asked, the response is often, "Oh it's just old age." The cost of additional insurance for these people is often not available due to pre-existing health issues or only available at astronomic prices.

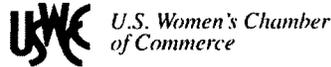
HEALTH PROVIDER ISSUES:

A hodgepodge of differing requirements among the myriad insurance companies that a provider must accept in order to attract an adequate patient base is costing our health system large amounts in duplicative, confusing, and wasteful administrative costs. Providers face increased administrative staffing, to prepare reports and bill the insurance companies, while Medicare and private insurers squeeze provider reimbursements. This dynamic is making it increasingly difficult for providers to remain in business. It has pushed physicians into higher-paid specializations, leaving a shortage of primary care doctors. This has also led to higher system costs.

OTHER SYSTEM SHORT FALLS: In addition to costs, the existing system has other problems.

1. Most economists are of the belief that the contributions employers make toward fringe benefits, especially health care premiums, come out of the employees' take-home pay. In truth some of the health insurance premiums do. We would certainly increase some percentage of employee pay if the insurance premiums were not so egregious.
2. A major problem with employer-based health insurance is that it is not portable. Job loss and job changes terminate the existing coverage. This condition exists nowhere else in the industrialized economies. It remains very unclear how portability and employer-based insurance coverage can coexist.
3. Group health insurance premiums are "experience rated" over an individual employer's group of employees, rather than the insurance risk being spread over a large pool of insured individuals. If a serious accident or chronic illness occurs within the employer's group, it can drastically and unpredictably drive up the premiums for everyone.

This increases the profit margin for the insurance company, that is in fact covering a large pool of insured, but they are allowed to divide the pool as if they were not insuring hundreds of thousands of people.



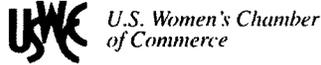
Worse, if an employer's health insurance claims drop back to a minimal level in years following an accident, the premiums are never reduced. They continue to escalate.

An employer does not find lower rates by shopping among the many insurance options in the market. A company may drop one insurance company for another, but because it is perfectly legal for insurance companies to provide information to one another regarding the history of the business being covered, what insurance company A charges, company B also charges or simply denies coverage. Thus, the notion that there is "choice" in our system is a smokescreen invented by the insurance industry to protect their own interests at the expense of the firms, employees, and the economy they are supposedly protecting.

4. The current system does not aggressively address preventive care and wellness. While government and private insurance cannot force people into healthy lifestyles and preventive medical care, a system can and should provide incentives, early treatment interventions, and education on wellness.

Costs for preventive care and wellness programs may initially increase costs at the outset; but, can be more than offset by the reduction of future costs. For example, uncontrolled diabetes often leads to complications such as kidney failure, heart disease, poor circulation and amputations. Besides the agony to the diabetes patient, treatment for these complications becomes extremely expensive. And with proper preventive care and wellness programs, these health outcomes are completely avoidable.

5. We are not getting what we're paying for. Despite spending far more on health care than any other country:
 - The United States now ranks 37th from the top when compared to other health care systems by industrialized nations.
 - Our infant mortality rate is 29th.
 - Life expectancy is now 47th due in part to increased obesity, diabetes often brought on by the obesity, heart problems and etc.
 - With what we are spending, with our technical prowess and many superb care providers WE SHOULD BE NUMBER ONE!
6. The health care system not only provides us with poor health care, it creates problems for providers, our economy, and our government.
 - I have observed cases where the payments to providers can lag as much as three or four months. The Medicare system is overburdened not just due to the aging population, but also due to inadequate health care programs for the population before it reaches the Medicare age.
 - Also under the Medicare program the system of payments for prescription medications with the donut hole in the middle is very likely exacerbating poor health outcomes. Based upon the costs of medication for chronic conditions most of the costs top out somewhere in that donut hole and not after the insurance kicks



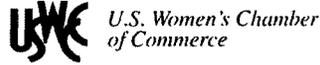
*U.S. Women's Chamber
of Commerce*

in again. If those with Medicare Part D cannot continue to buy their medicine, health outcomes deteriorate and costs increase as hospitalization and emergency care become more prevalent.

My Solution: FIX IT!

Ideally the whole existing system should be scrapped and re-thought. That is not practical or politically feasible. Thus, I have provided several comments that should be taken into consideration as initial steps toward a truly functioning health care system are put in place.

1. Major reductions of premiums by requiring insurance companies to honestly pool risk among all insured individuals and families. The plan proposed by Sen. Max Baucus, implementing a national Insurance Exchange, including a public option, would be a good way to make this happen. However, the Public Option should be in addition to the private insurance we already have to provide choice and competition.
2. Ensuring all Americans are covered to spread the cost is desirable, as it would potentially drop the rates. However, mandates are not an option – as it would force some small businesses to close their doors completely. Affordability is essential, including tax incentives for small businesses and individuals and an insurance subsidy for low income Americans.
3. Improve the flow of paperwork using modern information technology.
4. Limit the ability of insurance companies to deny coverage. Primary physicians and specialists know their patients, know their history, and know best what care they should receive.
5. We need to make better use of “Urgent Care Facilities” for short term or after-hours treatment when doctors are not readily available. These facilities can provide care at lower cost than hospital emergency rooms. Patients need to be made aware of this alternative assistance through local doctors’ offices and other means.
6. Because the existing system is so broken and so entrenched it may be necessary to not only make adjustments to the existing system, but to also develop a parallel system that can support the major shortfalls in the existing system that cannot easily be remedied. This may mean a public alternative.
7. Over the past several years the competition between health insurance companies has decreased as larger organizations buy up smaller ones. Fewer health insurance companies create less competition and results in higher premiums. It is Government responsibility to establish guidelines for equality for the good of all, Small Businesses, Health Care Providers and Insurance Providers as long as the system we currently have continues to be utilized.



*U.S. Women's Chamber
of Commerce*

**CRIST INSTRUMENT CO., INC.
A SHORT HISTORY**

Crist Instrument, a woman owned business, was incorporated in the State of Maryland in late 1989. We began at the request of several leading research scientists because of the expertise of the founding members, Charles Crist, a biomedical engineer and Joan Burkholder. The company opened in Montgomery County with two employees, Mike Crist and Joan Burkholder. It grew to eight members during the first ten years when it was decided that in order to continue to serve our expanding clientele it would be necessary to move the business out of the garage and the rest of the house that had been swallowed by the growth of that business.

Ten years later we relocated the business north and west to Washington County, Maryland. During the next ten years the company has continued to grow and now employs fifteen. We are a family oriented business which includes four of my children my husband and myself. Our ages range from 24 years to 73, with a diversity of staff members comprising five women and ten men. We have employees who were born in countries like Romania, India and Columbia. We have an African American.

Our business is housed in a small building of about 7,000 square feet. When the economy improves we plan to relocate to larger facilities in the same area, preferably 20,000 to 30,000 square feet. As a result of the economic downturn business has dropped about 12 to 13% since October 2008 and we are struggling to achieve Gross Revenue Sales of \$1,000,000.

Crist Instrument designs, engineers and manufactures (all in-house) equipment for medical research, specializing in the Neurological Field. We provide a catalog and a website of Standard Off-The-Shelf products, designed and built by us, that are used by many in the field. Where we really shine is the custom design, engineering and fabrication of custom equipment not available in the marketplace.

Over the years we have made devices for in-vitro use in an attempt to alleviate swelling in the brain of prenatal infants; a device to assist the study of Parkinson Patients; Vestibular Platforms to study hearing and balance, to name a few. A couple of years ago our products were featured in a movie, "The Fountain" starring Hugh Jackman. Our products are sold globally and our firm is very well known in our industry.

Our firm exists to advance the betterment of life on Earth. The biggest problems we face include continued health insurance coverage for our people; finding good people with skills not always easily available because of our particular market niche; and currently, the sluggish economy. Right now, we really need to increase staff levels by at least four in Sales, Engineering and Manufacturing. We can't. We desperately need to move to additional space to house these people. We can't. The economy and health insurance costs are the prime deterrent.

Common Ground: Finding Consensus on Health Reform,
the Small Business Perspective

Testimony of Freddy Castiblanco
Owner, Terraza 7 Train Café
Jackson Heights, Queens

House Committee on Small Business
June 3, 2009

Chairwoman Velazquez, Ranking Member Graves and members of the Committee – I want to thank you for the opportunity to testify here today about finding solutions to make health care work for small businesses in my home state of New York and across the country.

Small Businesses' Health Care Challenges: A Ground-Level View

My name is Freddy Castiblanco, and I am the owner of Terraza 7 Train Café, a small business located in the Jackson Heights /Elmhurst neighborhood of Queens, New York. I am also a member of Small Business United for Health Care, a coalition, sponsored by the community group Make the Road New York, of New York small business owners committed to winning quality, affordable health care. We are affiliated with the national Main Street Alliance, a network of small business organizations. We have been in business for over eight years. When I immigrated to this country nearly a decade ago from Colombia, where I had practiced as a physician, I wanted to achieve the American dream and open a small business that would provide a positive space to serve the community. I also wanted to continue my studies of medicine in a country that I consider to have the greatest technological and scientific achievements in medicine. Using my savings as start up money, I opened a small café in the heart of one of the most diverse neighborhoods in the country. With my own hands and a team of employees, I built the business in a once abandoned storefront – what was formerly an eyesore on the block has become a vibrant center of neighborhood life, where people from all walks of life gather and where local artists show their work. I am proud to say that we have built our business to employ eleven dedicated employees – six full-time, and five part-time. I am proud to create good jobs and contribute to the economic vitality of my neighborhood.

As my business has grown, I have wanted to purchase a group health insurance plan that our employees could choose to participate in for themselves and their families. I have found, however, that the costs of decent health coverage are completely unaffordable for a business like mine. I have lost some of my most talented employees to other employers because I can't provide health insurance. I have witnessed my employees avoid necessary medical treatment because they feared facing a large hospital bill – what could have been small medical problems turned into larger crises because my employees lacked health coverage. Others have gone without regular check-ups and necessary preventive care for many years now and do not have a regular physician. It pains me, as an employer and as a doctor, that my employees and their families do not have the opportunity to get routine care that would help them lead a healthier life. I also know that my business could be much more productive if our employees had regular preventive care and access to the medications they need.

My hope to offer my employees health insurance coverage was crushed when I consulted a health insurance broker to find an affordable plan for my business. I found that for what I considered to be an average, fairly comprehensive benefits package, the monthly premiums would be over seven hundred dollars – for each employee. This would make health care the largest expense for my business after wages, over eighteen percent of my payroll, outweighing my rent and any other operating expenses. I considered purchasing a less expensive plan, but the high deductibles seemed unfair and ultimately not worth the cost because my employees still would not be able to afford care with the high out-of-pocket costs. Frustrated, I made the hard decision not to buy health insurance because it was simply impossible for my business to sustain the cost. Since the recession started, that is even more the case.

Small Businesses Lack Bargaining Power, Real Choices

I share my story because I believe it is emblematic of the larger health care crisis – which small businesses have been on the front lines of for years. Small businesses face a number of serious barriers to finding quality health coverage we can afford in today’s marketplace:

- Without bargaining power to negotiate with insurance carriers, we face higher rates and are vulnerable to steep year-to-year premium increases.
- We pay far more in administrative costs than larger groups.
- We face routine discrimination in states where rating rules allow small groups to be charged more for having members who are older, women, or who have prior health issues.
- And, we must deal with the confusion and lack of transparency in the marketplace, often without dedicated staff who are trained in these issues, making it difficult for business owners like me to make informed decisions and ensure that our health care dollars are being spent well.

Due to these challenges, small businesses are left without any good options. We can try to pay the premiums even as we watch the costs threaten our ability to keep the doors open, we are priced out of the market and forced to go without coverage (like me), or we settle for inferior policies that still cost a lot and don’t provide real protection. None of these are good choices.

The seriousness of this lack of choices is evident from examining the market share held by the largest health insurers. According to the American Medical Association, 94 percent of insurance markets across the U.S. are “highly concentrated” under Department of Justice guidelines. A new study released recently in New York found that, even in one of the country’s less concentrated states, the two

largest insurers still control a 47 percent share of the market. Lack of choice is an even bigger concern in the state's smaller metropolitan areas. In seven of nine metro areas across the state, the top two insurers control over two thirds of the market, and in some cases over 90 percent: in Rochester, the top two carriers control 94 percent of the market, and in Ithaca 91 percent. If I am one of the "lucky" ones in a less concentrated local market and still the best quote I can find for decent health care is \$700 per employee each month, I can only imagine what the lack of choice must mean for small business owners in Rochester or Ithaca.

Making Health Care Work for Small Businesses

Without significant reform, small business owners and their employees will continue to be caught in a bind between paying unaffordable premiums and out-of-pocket costs, foregoing needed health care, and falling victim to mounting medical debt. There is broad agreement about this point. But the consensus that health reform is necessary to promote the future prosperity of small businesses leaves a number of important questions, such as: what are small businesses really looking for in health coverage? What types of reforms do small business owners support to fix health care? Are small business owners willing to contribute toward employees' coverage? And if so, how much?

Four simple principles that should guide the discussion over making health care work for small businesses are:

- Affordable costs
- Quality coverage
- Shared commitment
- Real choice

There is general agreement on the need for affordability and for mechanisms to ensure quality coverage. I will focus the remainder of my testimony on the last two points: shared commitment and real choice. You may not hear a consensus on these two points today. But I encourage you to talk to actual small business owners in your home districts about these issues. You may find they have quite different views, and more in common, than what you might hear from some groups based here in Washington.

Shared Commitment

One of the key questions about health reform is about shared commitment, or shared responsibility. The question is, who should share in the responsibility of contributing to the cost of making health care work? This is sometimes couched in the language of “mandates” and the question is asked: “Do small businesses like the idea of a ‘mandate’?” I believe this isn’t really the right question to ask. Nobody likes the word “mandate” – this is no surprise. But if you ask small businesses do we want good health insurance for our workers? Yes, we do. Do we feel a responsibility and a commitment to our employees to help them afford health care? Yes, we do. Do we want to be part of the solution? Yes. Are we willing to contribute? Yes, we are.

To illustrate this point, a recent article in the *Wall Street Journal* about small firms being forced to drop health coverage quoted a series of small business owners, and one common theme in their words was a strong desire to contribute so their employees could be covered. “I have a terrible time handling that I can’t give them that coverage... if I think about it, I can’t sleep,” said one business owner from Texas. “It was incredibly painful, these people are like family to me and I felt like I let them down,” said another owner, from California, who was forced to drop coverage. The small business owners I know feel the same way: we want to be a part of the solution.

There seems to be an idea out there that if we don’t have a “mandate,” we won’t have to pay for health care. This ignores the reality that we are paying already. We are all paying the cost of our broken health care system – in unaffordable premiums for those who still have coverage, and in lower productivity and financial insecurity for those who do not. As the café owner, maybe it is my job to remind us all that there is no free lunch in health care.

Anyone who asks for a free ride in health reform is not only denying responsibility – they are denying reality, because we all pay. Small businesses like mine realize that the cost we cannot afford is the cost of doing nothing. That’s why we support a model that includes a shared responsibility for businesses, employees, providers and government to all contribute to make health care work. We will be far better off with shared responsibility than if health reform fails and we are left to go it alone and try to pay the whole costs of health care ourselves in the current unworkable system.

As an immigrant who has come to this country seeking opportunity, and as a business owner who has created important jobs and revenue in my community, it is important to me, as it is to many small business owners, to be able to provide health insurance to all of our employees and their families at a

rate that we can all afford. Many of my employees – like the employees of small businesses across the nation – are immigrants who have come to this country seeking a better life and who are contributing to the economy through their payroll taxes, sales tax and hard work. My employees are authorized to work here in the U.S., but many immigrants are members of mixed status families, where one family member is a citizen and others are on the path to integrating into the country. I know that our health care system is strongest when everyone is contributing and I hope that I am able to provide coverage for all of my employees and their family members.

Real Choice

In order to make it possible for us to contribute, there must be measures in health reform to ensure affordability and guarantee real choice for small businesses. This idea of choice has emerged as a key point of debate in the discussion over health reform – in particular, whether reform should include a new choice for small businesses in the form of a public health insurance option. To me, the answer seems like common sense: if a major problem we face now is lack of real choices, then putting more choices on the table will be a good thing. Let us decide what works for us. For businesses that have coverage now, let them keep it if it's working for them. For businesses that don't have good options, offer new choices, including the choice of a public health insurance plan. This will give small businesses greater bargaining power and encourage competition among insurers to make costs affordable for us.

Small business owners understand the potential value of including a public plan choice in broader reform. In a twelve state survey project of small businesses in 2008 that I participated in, over 80 percent of New York small businesses favored reform that included a public health insurance option over reform focusing on more private options. Nationally, small businesses surveyed chose the reform proposal that included the public plan option by a margin of over two to one (see *Taking the Pulse of Main Street: Small Businesses, Health Insurance, and Priorities for Reform*, www.mainstreetalliance.org/publications).

Other research supports these conclusions. According to the Commonwealth Fund, a version of comprehensive health reform that includes the choice of a public plan is projected to save over \$230 billion for private employers over 2010-2020, and close to \$3 trillion for the nation. A public plan would establish a benchmark for competition around cost and quality, and could offer small businesses immediate savings of 20-30 percent on premiums, setting a pace for private insurers to match or beat. Most striking about this research, a model for reform that includes all other cost saving features but

leaves out the public plan would only save \$800 billion over 2010-2020. In other words, taking the public plan off the table takes three quarters of the potential savings of health reform, or \$2.2 trillion, off the table, too.

I know some may argue that we should leave health reform solely in the hands of private insurers. But I ask, why put all your eggs in one basket? Small business owners are practical people. We want something that works. And frankly, it is hard for us to trust the insurance companies to solve the problems of health care. Why should we, after so many years of frustration? Insurance companies have been unable or unwilling to contain cost increases, unable or unwilling to offer us real coverage we can afford – in short, unable or unwilling to make health care work for small businesses. Why would it be in the best interest of small businesses to put all our eggs in one basket – especially when that basket has been broken for a long time?

A Common Sense Compromise

Small businesses will be the economic engine that leads our local and national economies out of the recession. I am in awe of the American entrepreneurial spirit, which has created the most powerful economic engine the world has ever known. I'm proud to be an example of that spirit in action, and I know other immigrant business owners share that pride in our contributions. I am confident small businesses will help us regain our economic stability by creating new jobs and generating new revenue in our local economies. But we need to be able to count on quality, affordable health care for our employees to make this happen. That's why I believe we need health care reform so urgently.

The outline of a common sense compromise to make health care work better for small businesses is within reach: give us more choices, including a public health insurance option that would kindle competition and drive down costs to make good coverage affordable, and you will find small business owners on main streets across America not only willing to contribute, but eager to do our part to make health care work. Thank you.

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
The Voice of Small Business.®

Testimony for the
House Small Business Committee

on the subject of

"Common Ground:
Finding Consensus on Health Reform, the Small Business Perspective."

on the date of

June 3, 2009

From:
Mr. John Nicholson
Co-Owner, COMPANY FLOWERS & GIFTS TOO!

On behalf of:
National Federation of Independent Business (NFIB)
1201 F Street, NW Suite 200
Washington, DC 20004

Thank you for holding this hearing to examine how to make healthcare reform work for small business. NFIB greatly appreciates the continued attention the House Small Business Committee has given to finding a solution to the very serious healthcare affordability challenges facing our nation's job creators.

My name is John Nicholson and I am the co-owner of **COMPANY FLOWERS & GIFTS TOO!** We have been in business in Northern Virginia for more than 18 years and currently provide floral and gift services throughout Northern Virginia and Washington, D.C. in residential and commercial settings. As a retired public policy professional, the floral business is my "retirement" occupation, which I own and operate with my wife.

As small business owners, my wife and I are all too familiar with the ever-increasing cost of healthcare. From a cash-flow perspective, each month, we must find cash to pay for health insurance at a rate that is roughly half the amount needed to pay the rent, usually slightly more than what's needed to pay the outstanding sales taxes due on a previous month's sales, and roughly equal to the amount of cash needed for all payroll-related expenses, such as the Federal tax withholdings, Social Security taxes (both withheld and the amount required to be paid by the business directly) and Medicare amounts (both withheld from employees and the matching amounts paid by the employer directly). In short, health insurance is a huge expense associated with running our business.

COMPANY FLOWERS & GIFTS TOO! has fifteen part-time and full-time employees. Of the nine full-time employees that are eligible, seven of our employees obtain their health insurance through our business, paying one-half of the cost. There are three alternative plans, HMO (the cheapest), a standard PPO plan and a more expensive PPO plan. If the employee chooses the most expensive alternative then we'll pick up 50% of the cost of the standard plan, which means that the employee makes up the difference in cost between the standard and the most expensive plan. We work with an insurance consultant who is paid by the insurers to assist us with coverage options. The fact that we offer a range of plans makes us somewhat different than other small employers, who often have only a single plan available to them.

While the cost of coverage is the most significant challenge, maintaining coverage in a market where flexibility and choice are limited is also difficult. Because we have difficult medical histories, we have great reluctance to shop around for new plans because we would be subject to new underwriting processes, which could further increase our costs. Because small groups are just that – small – the "experience" of just a few can significantly affect the overall cost of a policy. This past year, apparently, the "experience" has been horrendous. At this year's end, we anticipate our rates are going to skyrocket. Depending on just how bad that sticker shock is, we may have to either stop paying for half of the coverage altogether or shift out of our current insurance plan and then venture out and start looking again. We do not look forward to this year's challenge.

The skyrocketing cost of healthcare is unsustainable for small business and the country. We must bring down the cost of insurance for small business and their employees. At NFIB, the goals of reform are clear: to lower costs for small businesses, provide an easier way to shop for insurance and expand the number of choices when buying insurance plans. Only when reform fulfills these key criteria can small businesses have greater access to a competitive marketplace where private, quality healthcare is affordable and available.

Addressing Cost, Choice and Competition – Policies to Consider

NFIB strongly believes that any healthcare reform proposal must address the 3 C's: Cost, Choice and Competition. Using these three criteria, NFIB suggests three key policy areas that are necessary to meet these goals.

Pooling: NFIB has long advocated that small business employers and their employees have the ability to pool together and purchase insurance. Pooling allows individuals to harness purchasing power, lower administrative costs and spread risk, which can decrease the overall cost of health insurance. Insurance pools, coupled with enforceable national rating rules can provide a pathway to greater access and choice for all. Congress should take steps to develop purchasing pools.

A natural pooling mechanism can be found in a "connector" or "exchange." A connector-exchange model can be structured in a multitude of ways and serve a variety of consumers—both individuals and the small group market, or simply as an alternative marketplace for all purchasers. In addition, connectors can provide small business owners and their employees with a more efficient way to seek out and purchase healthcare through a one-stop-shop approach.

When considering how to design a connector-exchange, it is important to be mindful of two core components that must be addressed. First, the exchange must be open and available to **all** small employers in the fully-insured market, rather than just a segment of small employers. Some have suggested that new insurance market reform rules paired with a connector-exchange that limits participation to only individuals and micro-firms with 10 or fewer employees would satisfy the needs of the small group market (which currently covers 2-50 employees in most states). Nothing could be further from the truth. Those who support such a limited approach are simply providing a safe haven for insurers to continue their monopolistic and anti-competitive practices, while doing nothing to provide relief from the high costs that are threatening the ability of our small businesses to afford insurance.

Second, as small employer's transition to a reformed system, reform must address their greatest concern – costs. It is critical to be mindful of what small employers are paying today in the fully-insured marketplace and what they are receiving for those dollars. Steps ought to be taken to ensure that, at the very least, small employers who are voluntarily offering coverage are not spending more than they are today.

Market reform: Lack of competition makes it easy for insurers and providers to raise their prices. In many states, small business owners have only one or two choices of insurance providers. A recent study by the Government Accountability Office, which is included at the conclusion of this testimony, shows that in most states, the five largest insurers control 90 percent of the market. We need more private competition in the marketplace to help lower the costs of insurance for small businesses.

Insurance market reforms are a key component to increasing access to and availability of quality, affordable healthcare. These reforms are especially critical to the individual and small group marketplaces because they have historically experienced the greatest lack of choice, the

most significant premium volatility (a 113% increase since 1999) and the most abusive rating practices that renders coverage unaffordable.

The current structure of 50 states with 50 different sets of rules necessitates establishing national rules that provide a more organized, competitive and simplified marketplace for all to purchase affordable health insurance. National insurance rating rules are long overdue for the individual and small group market. National insurance market rules will provide small employers with a marketplace that more closely reflects the one that their large competitors utilize today.

Tax-Based Incentives: Targeted tax credits can create a more vibrant individual and small group market with new incentives for individuals to shop for health insurance. The right combination of tax-based incentives could also provide the self-employed with equality and end the disparity in the tax treatment of health insurance for the self-employed.

Small business owners and the self-employed should have the same rights that large corporations have when it comes to obtaining health insurance. However, entrepreneurs purchasing their health insurance outside of the traditional employer system are forced to purchase with "after-tax" dollars. As a result, they pay an average of \$1,800 more for their health insurance. A solution supported by NFIB would be to equalize the tax treatment for the self-employed. Equality is critical to ensuring that everyone receives the same tax treatment—regardless of where or how they purchase their health insurance. NFIB supports the Equity for Our Nation's Self-Employed Act (H.R. 1470) which takes steps to correct this inequity for the self-employed.

The SHOP Act: An Approach to Reform

Whether incremental or comprehensive, it is critical that reform proposals are reflective of these policy pathways. These elements are reflected in some of the comprehensive reform discussions currently underway and in the Small Business Health Options Program (SHOP) Act (H.R. 2360/S. 979), which NFIB has supported in both the 110th and 111th Congress. This bipartisan, bicameral legislation is an incremental approach designed to make health insurance more affordable, predictable and accessible for small businesses and the self-employed. The SHOP Act achieves these goals through a combined approach that includes pooling, insurance market reform and tax-based incentives to assist with the cost of coverage in a voluntary setting. NFIB supports SHOP's introduction and firmly believe that the health insurance market reform and coverage priorities in the SHOP Act must be reflected in comprehensive health reform legislation.

Roadblocks to reform:

While it is important to identify the policy proposals that can increase access to quality, affordable healthcare, it is equally important to suggest how some approaches can adversely affect employers, employees and individuals. NFIB has identified four potential "roadblocks to reform" including employer mandates, administrative burdens on employers, government-run "public options" and the need to address the unsustainable growth in healthcare costs.

Employer Mandates

Some are advocating an employer mandate as a way to increase coverage. This can take one of three forms: a pure mandate that requires an employer to provide and pay a fixed percentage of an employee's health insurance premium; a mandate requiring an employer to

provide and pay a fixed percentage of payroll for employee health insurance; or a mandate requiring an employer to provide employee health insurance or pay a tax—the so-called pay-or-play option. NFIB opposes all three forms of an employer mandate because all three would have devastating effects on employers, employees and the overall economy.

Employer mandates adversely affect small employers because they raise payroll costs, erode competitive positions, and increase start-up costs, making it particularly difficult for less profitable firms and those operating on small margins. Employer mandates also adversely affect low-income workers because they result in lost employment and depressed wages. They adversely affect the economy because they effectively levy a regressive payroll tax on the businesses and people least able to afford it.

Earlier this year, the NFIB Research Foundation conducted a study measuring the economic impact a national employer healthcare mandate would have on small business. Using the Business Size Insight Module (BSIM), a research model that illustrates the effects that regulatory or compliance policies have on the economy, NFIB found that the mandate would generate a net loss of more than 1.6 million U.S. jobs between 2009 and 2013, with small businesses alone accounting for 66 percent – or more than one million – of all jobs lost. An employer mandate would be the wrong solution to America’s healthcare problems—especially during a recession when the country is looking to small business to turn the economy around.

Recent rumblings suggest small employers may have changed their traditional opposition to employer health insurance mandates, yet research that is representative of the small employer community does not reflect that sentiment. Small employers have not changed their collective views on the issue. A telephone survey of 1,000 small employers conducted for the NFIB Research Foundation by Mason-Dixon in December and January show 80 percent opposition to an employer mandate. To determine whether NFIB member employers varied from the broader small employer population, the survey took 500 from each. As the attached graph shows, there is no statistical difference between the two. Both groups overwhelmingly oppose a mandate.

NFIB insists that any healthcare reform efforts focus on the needs of America’s job creators – small business. That’s not possible with an employer mandate. Jobs will be lost, paychecks will be cut, and business investments will be postponed.

The Public Option: A Path Away From Private Insurance

NFIB has long advocated that Americans ought to continue to receive their health insurance and healthcare through the private sector. NFIB’s opposition to a public option is a direct reflection of our members, who believe that healthcare ought to be obtained in a private setting.

Many reform plans under discussion include a public option that would be available alongside private health insurance plans. However, such a program could overrun the private insurance market forcing private insurers to leave altogether. Additionally, much like Medicare does, a government-run plan would set healthcare provider reimbursement levels too low, forcing healthcare providers to make up the difference by increasing prices charged to the privately insured population. This is especially troubling for small employers, who already pay more for their health insurance, and would be at a further affordability disadvantage as costs are shifted onto the private insurance market.

When discussing the desire to enact policies that would expand the government's role in healthcare, ask yourself, "Do you want a program that has the responsiveness of the U.S. Postal Service, the heart of the IRS and the cost inefficiency of the Pentagon?" It might be a rhetorical question, but it deserves serious thought and a meaningful response.

Keeping costs competitive and increasing choice and robust competition are critical. Rather than creating a system where private markets are out-manuevered by government-run plans, NFIB supports national insurance market reforms that end the monopolistic practices by a handful of insurers in the private market so that all insurers have the ability to compete for consumers based on choice, price, value and, most of all, quality.

Don't Pile on the Paperwork

Health policy professionals have watched the Massachusetts healthcare "experiment" with keen interest. While there are benefits and drawbacks that can be identified since its enactment, one particular concern for small employers is the administrative burden associated with compliance. In Massachusetts, the paperwork burden is enormous. For instance, there are 12 pages of instructions for filling out the forms that the state requires employers to file so they can certify the number of people they employ and how they contribute to their employees' healthcare costs (if they do). It is critical to be mindful that a: most small employers do not have Human Resources departments – they are the HR department and b: that paperwork is both time-consuming and expensive to complete if employers are forced to rely on outside experts such as accountants and lawyers. Reducing the administrative burden and administrative complexities remain goals of reform for small employers.

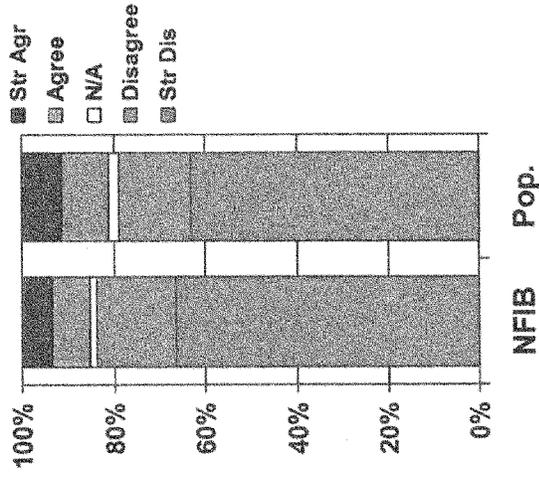
Caution: Don't Put Coverage Ahead of Cost Containment

Although Massachusetts was successful in reducing the number of uninsured, the price tag to achieve that goal was significant because the state did not take steps to curb spending through cost-containment. Blue Cross Blue Shield reports that between 2005 and 2007, healthcare expenditures in Massachusetts rose from \$20.8 billion to \$25.5 billion – a 23% increase in just two years – a rate that threatens the long-term viability of the program.

Attacking costs cannot be a political throwaway line. These cost increases signify the dangers of enacting "coverage" reforms without addressing the "costs" in the overall system. Policymakers in Washington, D.C., can build a more successful and sustainable model for reform by committing to cost containment first or, at the very least, to cost containment in concurrence with coverage reforms. Likewise, policymakers ought to keep the pressure on the "cost drivers" in the system who have committed to making suggestions on how to achieve cost containment.

In conclusion, we appreciate the committee's interest and dedication to solving the healthcare affordability crisis. Healthcare reform is NFIB's number one priority, and we are committed to working with Congress to develop solutions that decrease healthcare costs and increase access to quality healthcare – for small business and all Americans.

Q. All employers should be required to offer health insurance to all their full-time employees and pay 60 percent of the premium.



- **Summary**
 - NFIB mean score = 3.45
 - Pop. mean score = 3.35
 - Difference = 0.10
- **No statistical difference**
- **About 80% of both groups oppose**



FOR IMMEDIATE RELEASE

 Contact: Stephanie Cathcart, (202) 314-2056
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Employer Healthcare Mandate Would Wipe Out 1.6 Million Jobs

Business Simulations Show Negative Impact on Local Jobs, Revenue

WASHINGTON, D.C., January 28, 2009 – In a study released this week, the National Federation of Independent Business Research Foundation analyzed the potential impact of a national employer mandate on small businesses to provide healthcare.

The study conducted business simulations to measure the effects of a hypothetical national mandate requiring employers to offer private health insurance to all employees starting in 2009, and to finance a minimum of 50 percent of the cost. The simulation ran six classes of business to determine the impact on employers of different sizes. The results show that an employer mandate would have significant negative impacts on local jobs and on state revenues, particularly considering the rising costs of health insurance.

“In the current environment, an employer mandate could wipe out 1.6 million jobs in just five years and reduce the GDP by around \$200 billion,” said NFIB Senior Research Fellow William “Denny” Dennis. “This research should alarm everyone about the consequences of costly mandates to small businesses. It is essential that our leaders take into account the drastic impact a mandate like this would have on the livelihood of small businesses and families in local communities.”

Simulation Results (Fact Sheet attached)

- Of the more than 1.6 million jobs lost between 2009 and 2013, small businesses would account for more than 1 million, 66 percent, of all jobs lost.
- U.S. real GDP would contract by approximately \$200 billion between 2009 and 2013.
- Small businesses would lose roughly \$113 billion in real output and account for 56 percent of all real output lost.
- Labor intensive industries (e.g. construction or restaurant) and businesses with 20 – 99 employees would experience the most job loss.

“In our current economic environment, it is so important that we stimulate and support our country’s job creators – small businesses. Enacting healthcare reforms that fail to address rising costs, and place unmanageable burdens on business, is not a viable pathway for meaningful reform,” said Todd Stottlemeyer, president and CEO, NFIB. “It is important that reform fosters growth and doesn’t place undue burdens or new financial pressures on these small employers.”

Healthcare premiums continue to skyrocket, increasing by nearly 130 percent in just eight years, and are, on average, 18 percent higher than those of large businesses. These unsustainable costs significantly hinder small businesses’ ability to invest in and grow their business. Healthcare reform legislation must take steps to curtail costs for small businesses, individuals and the self employed by pursuing creative approaches to pooling, tax code parity, and improved, competitive insurance markets.

-more-

About the Simulation Model

NFIB used a proprietary Business Size Impact Module (BSIM) to simulate the impact of a national employer healthcare mandate on businesses by size of firm. The BSIM consists of a series of ten regional models designed to measure macroeconomic changes due to increased business costs. It receives inputs (new costs and spending) and generates outputs (macro variables) according to firm size. The unique capability of this model is important because often government policies have financial effects on businesses, and regulatory costs per unit are often higher on small firms than their larger counterparts.

The assumed mandate used in the study required that all employers must offer private health insurance to their employees, and that employers must finance at least 50 percent of their employees' health insurance premiums. The remaining share of employee premiums was assumed to be financed by employee contributions and federal subsidies. Implementation of the mandate is assumed to begin in 2009. Employment and output effects of the mandate were forecast for years 2009 to 2013, the first five years of program implementation.

For a copy of the full report, written by Michael Chow and Bruce Phillips, please contact Stephanie Cathcart, stephanie.cathcart@nfib.org, 202-314-2056.

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Solutions Start Here is a campaign developed and led by NFIB and its members as the small business platform for healthcare reform. By working to engage and educate policymakers about the unique healthcare issues faced by small business, Solutions Start Here will drive and integrate the concerns and needs of America's small business community into the national health reform debate. Because when healthcare is fixed for small business, it's fixed for America. For more information, visit www.FixedForAmerica.com.

NFIB is the nation's leading small business association, representing small businesses in Washington, D.C. and all 50 state capitals. Founded in 1943 as a nonprofit, nonpartisan organization, NFIB gives small and independent business owners a voice in shaping the public policy issues that affect their business. NFIB's powerful network of grassroots activists send their views directly to state and federal lawmakers through our unique member-only ballot, thus playing a critical role in supporting America's free enterprise system. NFIB's mission is to promote and protect the right of our members to own, operate and grow their businesses. More information is available online at www.NFIB.com/newsroom.



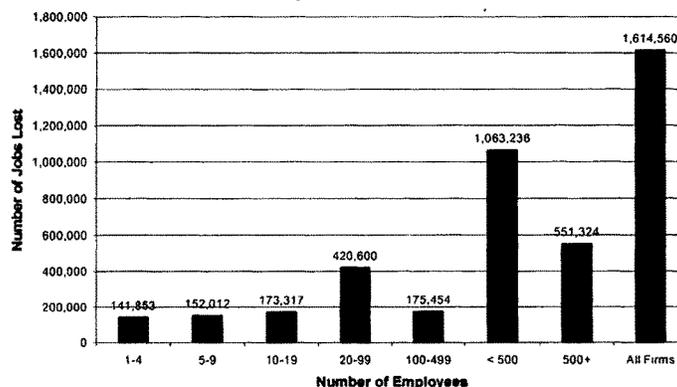
NFIB Fact Sheet: Small Business Impact of a National Employer Healthcare Mandate

The NFIB Research Foundation conducted a study measuring the economic impact a national employer healthcare mandate would have on small businesses. A hypothetical employer mandate was modeled and tested using a computer simulation that captured that mandate's effects on U.S. businesses by firm size.

Simulation Results

- The national employer healthcare mandate would generate a net loss of more than 1.6 million U.S. jobs between 2009 and 2013.
- *Small* businesses would lose more than 1.0 million jobs and account for 66 percent of all jobs lost.
- U.S. real GDP would contract by approximately \$200 billion between 2009 and 2013.
- *Small* businesses would lose roughly \$113 billion in real output and account for 56 percent of all real output lost.

U.S. Jobs Lost Due to a National Employer Healthcare Mandate, by Firm Size: 2009-2013



Methodology

NFIB utilized a proprietary Business Size Impact Module (BSIM) to simulate the impact of a national employer healthcare mandate on businesses by size of firm. The assumed mandate requires that all employers must offer private health insurance to their employees. Employers must finance at least 50 percent of their employees' health insurance premiums. The remaining share of employee premiums is assumed to be financed by employee contributions and federal subsidies. Implementation of the mandate is assumed to begin in 2009. Employment and output effects of the mandate were forecast for years 2009 to 2013, the first five years of program implementation.

For a copy of the full report, contact Stephanie Cathcart: stephanie.cathcart@nfib.org, 202-314-2056.

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JANUARY 2009

CGB

CORPORATION

Company Flowers

| | 12/1/2004 | | | 12/1/2005 | | | 12/1/2006 | | | 12/1/2007 | | | 12/1/2008 | | |
|----------|------------|--------|----------|------------|--------|----------|------------|------------|----------|------------|------------|------------|------------|------------|------------|
| | PEO.1 | PEO.1A | HMO | PEO.1 | PEO.1A | HMO | PEO.1 | PEO.1A | HMO | PEO.1 | PEO.1A | HMO | PEO.1 | PEO.1A | HMO |
| W/S | \$462.00 | X | \$724.00 | \$442.00 | X | \$285.00 | \$521.00 | \$370.00 | \$549.00 | \$615.00 | \$440.00 | \$412.00 | \$147.00 | \$324.00 | \$462.00 |
| W/S/CHNG | \$751.00 | X | \$509.00 | \$815.00 | X | \$546.00 | \$984.00 | \$985.00 | \$646.00 | \$1398.00 | \$914.00 | \$792.00 | \$1,392.00 | \$929.00 | \$984.00 |
| H/O/Sp | \$834.00 | X | \$835.00 | \$1,017.00 | X | \$679.00 | \$1,188.00 | \$851.00 | \$903.00 | \$1,418.00 | \$1,012.00 | \$946.00 | \$1,180.00 | \$1,226.00 | \$1,083.00 |
| FAMILY | \$1,157.00 | X | \$763.00 | \$1,298.00 | X | \$926.00 | \$1,459.00 | \$1,058.00 | \$977.00 | \$1,722.00 | \$1,202.00 | \$1,153.00 | \$2,092.00 | \$1,880.00 | \$1,284.00 |

STATEMENT FOR THE RECORD

BRADLEY L. THOMPSON, II

INLAND PRESS

and

PRINTING INDUSTRIES OF AMERICA

BEFORE THE

HOUSE COMMITTEE ON SMALL BUSINESS

“Common Ground: Finding Consensus on Health Reform,
the Small Business Perspective”

Introduction

Chairwoman Velazquez, Ranking Member Graves, and members of the Committee, good afternoon and thank you for inviting me to testify before you today on the critical issue of health care reform and the need to consider common-ground solutions from a small-business perspective.

My name is Brad Thompson and I am the President of Inland Press, a Detroit, Michigan-based company engaged in both the commercial printing and the newspaper businesses. I am also here today in my capacity as Labor Policy Chairman of Printing Industries of America, the world’s largest trade association

representing the printing and graphic communications industry. Printing Industries is proudly headquartered in Sewickley, Pennsylvania, in the district represented by a member of this Committee, Congressman Altmire. While there are a few very large, global corporations in our industry, the vast majority of printers are small businesses.

My testimony today is in two parts. First, I will highlight the health care challenges both Inland and the printing industry face. Second, I will make recommendations on policies I hope this Committee and Congress will consider as the health care reform debate moves forward.

Part I

Health Care Challenges: Printing Industry & Inland Press

The printing industry has long been one that provides quality health benefits to its workforce—which numbers 970,000. Nearly 97 percent of printing companies provide health benefits. Approximately 14 percent of companies provide retiree benefits. I would add that nearly 70 percent of companies offer dental plans, and a quarter offer vision benefits.

It's no surprise then to learn that printers—especially small printers and especially in the current manufacturing economy—are reaching crisis points as they struggle to pay increasing health benefits costs. Printers are spending

currently about \$250 per month per worker to provide single coverage and about \$600 per month per worker for family coverage. Inland's costs are much higher; we pay \$586 for single coverage and nearly \$1,600 for family coverage.

Workers in our industry are paying more than ever before, too, with employee contributions ranging from about \$90 to about \$350 per month. Once again, Inland absorbs more of the employee costs; our workers pay only \$55 to \$70 per month. And the cost increases keep coming ... Recent data shows the industry's average annual cost increase for health insurance premiums averaged over nine percent. For printers with fewer than 20 employees, that number is in the double-digits. By way of comparison, the New York region that you represent, Madame Chairwoman, saw a 10½-percent annual increase most recently. Ranking Member Graves, the Midwest breathed a little easier with about a six-percent average increase ... but I wish I knew exactly where in the Midwest that was—it wasn't Michigan, I can assure you ... which brings me to Inland Press's particular pain points ...

Inland Press has been in operation for 114 years; I'm proud to say we've offered health insurance to our workers since 1934. Today, we employ 115 full-time employees, 25 of whom are union workers. We provide full family coverage to all of these workers.

While health benefits are certainly a tool to attract and retain a qualified workforce, I must say from the outset that many small business owners feel a moral obligation to provide health insurance to employees. I certainly feel that way. As I mentioned, Inland employs both union and non-union workers. Clearly, the labor agreements include health benefits at a pretty rich level. At Inland, we've always felt a keen responsibility to try to keep our office folks—our non-union workers—on par with their union co-workers. Since we can't do this through wages, providing full family health insurance coverage has been the way we've managed to achieve a sense of fairness in compensation. It's becoming increasingly harder to do.

In April, I received our annual health insurance renewal and—as I now expect—our premium increase was over 10 percent: 11.6 percent to be exact. To put this in a historical perspective, in April 2003, Inland's costs to provide health benefits averaged \$4.86 per employee per month; this year it will be nearly \$9.00. These annual increases have real consequences—namely, I've been telling all of my department heads, "Do not even consider hiring another body." And this was before the economy tanked. It's a front-end-loaded cost that Inland simply cannot absorb. As a manufacturer in a state with the nation's highest rate of unemployment, this is devastating.

In 2007, we paid more in health care premiums than the printing company earned in profits. We're a publicly traded company, and this did not please the shareholders. Like most employers, we've tinkered with adjustments in higher co-pays for prescription drugs and doctor's visits, but we're at the point where minor adjustments aren't enough—real reform and solutions are necessary. I'd like to comment on four policy solutions that I hope this Committee and Congress will keep in mind as comprehensive health care reform is considered.

Part II.

Pooling

The first is the concept of “pooling.” The idea of small companies pooling together to achieve greater scales of economy is valid. And it works. Many of my peers in California and Maryland still enjoy the benefits of in-state pooling plans—the MEWAs of the past; their costs and ability to maintain coverage for the workers is much more manageable than printers in other parts of the country. These are small models in somewhat of a vacuum, but they demonstrate success that I hope will be expanded throughout the country. I'm pleased to know that the leadership of this Committee supports a version of the pooling concept, and I encourage you to keep the discussion alive. I do have concerns about the state-mandate quandary small printers face as we seek to purchase health insurance. I

believe that if my peers and I could pool geographically rather than be limited by state boundaries and overwhelmed by the lack of parity in mandated benefits, we would see fewer uninsured and underinsured small business employees in this country.

Tax Credits

I understand that providing tax credits to small businesses as an incentive to provide employee health benefits is a proposal attracting much attention—and it's one that my industry and myself can really get behind. Connecting tax credits to the implementation of wellness programs is also a good idea. As we know from various studies, including a 2003 Department of Health & Human Services (HHS) study, such programs can have a significant return on investment. As Congress considers the manner in which these tax credits would be offered, I urge consideration of the following points:

1) Number of Employees: In determining eligibility for a small business tax credit, there will be some kind of cap on number of employees. I've seen 100 as a number proposed. While that would be an incentive to many printers, not all small printers would be eligible. For example, Inland would be "over" by 14 bodies. I urge the Committee and Congress to increase this number to 250 to encompass as many small firms as possible. We certainly

don't want a situation where printers are afraid to grow for fear of losing this tax credit.

2) Wellness Programs: In determining a wellness program connection with a potential tax credit, it's important to consider the cost and administrative burdens such implementation might provide on small firms. The tiniest printers may not have the resources to implement a program and are often the ones most in need of a tax incentive to provide health benefits. Others face operational hurdles. At Inland's newspaper business, I have 60 employees spread out over 10 locations in Michigan. Depending on how a wellness program is designed and certified by HHS or another body, such operational structures may make it challenging to be eligible for the tax credit. There's probably a solution, and I hope these types of practical questions will be considered.

3) Hours of Workweek: Establishing eligibility by a minimum number of hours worked per week is another factor to consider when designing a tax credit. A 2007 International Foundation of Employee Benefit Plans study cites that the majority of employers use a 30-hour workweek as a cut off for health insurance eligibility, so I would encourage the same standard to apply in legislation governing tax credits.

Increase Options, Competition, and Flexibility in the Health Care Marketplace

Another area that I hope Congress will consider is the need for increased competition and products offered in the health care marketplace. It's key that both owners and workers at small printing companies have flexibility and choice in what insurance best fits their needs and budgets.

Health Savings Accounts (HSAs) are a great example of one of these tools. Approximately 12 percent of printers offer HSAs to their workers; of those that are, the firms contribute between \$500–\$1000 to help fund an employee's individual account. At Inland, our union plan is an HSA model. It may or may not be what we use in the future, but the option is there, and that's the key. I know that not everyone in Congress sees eye to eye on HSAs; some want to expand HSA adoption while others seek to make it less attractive, but I encourage the members of this Committee and Congress to support the concept of options and flexibility—including HSAs—to promote the ability of small businesses to provide health insurance. When it comes to competition: more, more, more. I for one will spend the time to shop around if there is a robust small group market.

Government-Mandated Health Insurance

The three policy suggestions I've given are positive ones, but I'd be remiss if I didn't address one proposal about which most small printers, including me, are

very wary—and that is the idea of government-mandated health insurance. I've indicated that the printing industry has a fantastic rate of providing benefits to workers, so you may wonder why we would be concerned about the mandating of coverage. Whether it would be state mandates, mandated minimum levels of coverage, or pay-or-play structures, there is a real concern about cost increases outweighing the noble goal of insuring more Americans. It also creates serious barriers to entry for very small and start-up printing companies.

Conclusion

Again, thank you for holding today's hearing and for inviting me to testify before the Committee. I look forward to answering any questions you may have.

