



## SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

Opening Statement for  
*“Reform Done Right: Sensible Health Care Solutions for  
America’s Small Businesses”*  
October 20, 2009 at 10:30 a.m.  
Room 253 of the Russell Senate Office Building

*(As prepared)*

Good morning and thank you for joining us. We are here today to discuss one of the most critical issues facing small businesses in America today: the rising cost of health care and to review and analyze the work of both the Senate HELP and Finance Committees.

There are 27 million small businesses in our country, accounting for more than half our workforce. These citizens who invest their time and money and assume the many risks associated with creating successful businesses deserve our best effort to reduce the slow growth of their income. They deserve a voice in this health care debate and I have convened this hearing today to provide a forum for their voice to be heard.

Through today's hearing, our goal is to gain a better understanding of the needs of small businesses in health care reform and whether the current proposals meet those needs as we move further through this debate.

Before we can chart a course for where we want to go, we must understand where we are right now. With that in mind, we will start by examining the current challenges small businesses face as they try to provide affordable health insurance choices to their employees. Small Business Administrator Karen Mills is here with us today to give us this snapshot. Thank you for coming.

In charting our course, we will discuss the goals that need to be met in addressing these challenges. One of the best ways to reduce the cost of health coverage for small businesses is through a reformed market framework that increases choice and competition. It is the most basic and fundamental principle

of the free market. We have seen time and again that creating markets and strengthening them to maximize competition gives consumers more choices and ensures fairer prices.

There are a number of ways we can reach these goals, such as creating multiple health care exchanges to attract more private health insurers to compete to provide coverage to small businesses. These national, state and potentially regional, and perhaps even county level, individual and small business group exchanges will help give small businesses access to the kinds of quality, affordable choices that Members of Congress and federal workers have members of the nation's largest and most successful private insurance exchange.

I would like to thank the members of the Finance Committee for their hard work, including those here today – and especially Ranking Member Olympia Snowe for her efforts to focus on the needs of small business and her bipartisan efforts to provide meaningful reform. This bill is certainly a step in the right direction, and those on this Committee, particularly Senator Snowe, who worked to ensure that small businesses remained a focus during the markup, should be commended.

#### COST OF HEALTH CARE

Today, small businesses are seeing their health care costs increase faster than the prices of the products and services they sell – four times faster than the rate of inflation since 2001. Premiums for single policies increased by 74 percent for small businesses in the last eight years, according to a 2009 Kaiser Family Foundation survey. (*CHART 1: Premium Increases*)

If Congress fails to act now, health care costs are only expected to continue to rise. According to the Small Business Majority, the next decade promises that the health care costs for small businesses will increase from \$156 billion today to almost \$2.4 trillion by 2018. (*CHART 2: Cumulative Cost of Health Benefits*)

As we learned from a recent Business Round Table Report, employees are expected to go from spending almost \$11,000 a year today on health care to nearly \$29,000 a year in 2018. According to the

same Report, in 2018 alone, 178,000 small business jobs will be lost due to the high cost of health care.

***(CHART 3: Small Business Job Loss)***

The numbers are numbing. But this hearing is not about numbers. It is about people – the people we are trying to help through health care reform. People like Charlie Kerzweg, who owns his family’s Diamond Paper Company outside New Orleans.

Charlie offers to pay 80 percent of his workers’ premiums – that is about \$900 per employee a month. But with premiums increasing 9 to 15 percent a year, these costs are just too expensive for some of his employees, even with them just contributing 20 percent of the cost. Many have chosen to be uninsured. For those who do choose insurance, Charlie is forced to absorb the skyrocketing costs, while unable to risk raising the prices of his products to make up the difference.

Then there is Philip Shiman from Springfield, Virginia. Philip wrote about his concerns in a letter to the editor earlier this month in the Washington Post. Philip is a federal contractor who works for the Department of Defense as a historian. He says:

“I laughed when I read in the Sept. 30 Federal Diary column that the premiums for the Federal Employees Health Benefits Program will rise 8.8 percent next year, adding an average of \$12.87 per paycheck for family coverage; and that Blue Cross Blue Shield premiums will rise 12 percent for families (with expanded benefits). I should be so lucky. I am a self-employed federal contractor and have a privately purchased Blue Cross plan for my wife and me. This spring my premiums rose to more than \$2,200 per month, up almost 50 percent. That's more than \$26,000 per year. (Last year's increase was more reasonable: only 25 percent.) Fortunately we were able to switch to a policy with a high-deductible and high co-pays, lowering our premiums to \$837 per month. We were happy. So please, federal workers, appreciate how good you have it.”

**CHOICE AND COMPETITION**

Both Mr. Kerzweg and Mr. Shiman compete against larger businesses – organizations large enough to self-ensure or negotiate in the marketplace for premium plans. In fact, a 2006 study by the Commonwealth Fund found that small firms, on average, pay 18 percent more than large employers for the same coverage. Because of the difference in health care costs, small firms face greater challenges in providing health care for their employees because small firms can't charge 18 percent more for their products or services—they would be forced out of business.

As a result of these high costs, small businesses – most of which want to provide coverage – are faced with the choice of cutting wages or cutting health insurance. Health insurance is usually the first to go adding more people to the rolls of the uninsured. A 2008 National Small Business Association survey found that in 1993 alone, 61 percent of all small companies offered health coverage. Today that number is less than 38 percent. Of the 46 million Americans living without health care, about 60 percent work for small businesses, according to the nonprofit Employee Benefit Research Institute.

Many of us here in Washington, including myself, Ranking Member Snowe and President Obama have said that the quality, affordable health care choices we have access to through the Federal Employees Health Benefits Program (FEHBP) – should be available to all Americans. The Federal Program – the nation's largest employer-sponsored private health insurance exchange – covers 8 million active and retired federal employees and their dependents, according to the Office of Personal Management. The program encourages competition, enables choices, and reduces administrative costs to provide the largest selection of health insurance plans available at the lowest possible cost and in a way that makes it easy to compare plans (**CHART 4: Plan Profile/Comparison**). It is a successful example of how a competitive, private marketplace can work.

In Congress, we know that with the right rules and with a large enough pool, insurance exchanges work; we know, because we're part of one. The Finance bill, as passed by the Committee, makes a down payment on this model.

The bill directs states to establish a small group exchange by 2010 using a model based on the “Small Business Health Options Program (SHOP) Act”. Initially, within these SHOP exchanges, states would assist small employers, or those with 50 or fewer employees- or a 100 or fewer - depending on the state, coming into the exchange. Additionally, to help alleviate the administrative burden on small businesses, federal assistance will be available to provide technical assistance to states on incorporating small businesses into SHOP Exchanges, allowing small businesses to get back to doing what they do best – creating jobs as opposed to navigating complicated insurances options.

Once the SHOP exchanges have become fully functional, states will be required to include more small businesses, those with up to 100 employees, and finally all businesses to operate in the exchange.

Additionally, instead of requiring employers to provide coverage, employers with more than 50 full-time employees that DO NOT offer health coverage must pay a fee for each employee who receives a federal tax credit for health insurance through an exchange. The fee for these employers is the lesser of the amount of the total number of employees that receive a tax credit for purchasing insurance through the exchange multiplied by a flat dollar amount, OR an amount equal to \$400 multiplied by the TOTAL number of employees. The fee could be imposed on a monthly or annual basis, determined by the Secretary of HHS. For example, if a business has 100 employees and does not offer health coverage, and 30 of their employees receive a tax credit for enrolling in the state exchange, if the flat dollar amount set by Secretary of HHS for that year is \$3,000, then that employer would owe the lesser of \$90,000 or a penalty of \$400 per employee for every full time employee, which would be \$40,000. In this instance, the employer would pay \$40,000. For small businesses with 50 full-time employees or less, no fee is required.

To encourage small businesses to participate in the exchanges, the bill also includes \$23 billion in the form of a small business tax credit.

Initially, the small business tax credit would be available to qualifying small businesses that have 25 or fewer fulltime equivalent employees that have average wages of \$40,000 or less. Qualifying employers would receive the credit for up to two years with a maximum credit of 35% of their contributions to health insurance premiums of covered employees. But, the full amount of the credit is available only to an employer with 10 or fewer full time employees whose annual full-time wages average less than \$20,000.

As a result, too many small businesses would be ineligible to take the full amount of the credit because the average wage of employees who work for small businesses with 10 or fewer full-time employees is over \$30,000. For these small businesses, the value of the credit is cut in half. One of the issues we need to consider today is whether the small business tax credit needs to be expanded to help more small businesses provide coverage for their employees and to focus on the improved tax treatment for the over 20 million self-employed.

I look forward to the testimony today from two impressive panels to address these and other possible solutions for providing quality, predictability and affordability to the health insurance market for small businesses in America.