



STATEMENT BEFORE

SENATE COMMITTEE ON SMALL BUSINESS AND
ENTREPRENEURSHIP

REFORM DONE RIGHT: SENSIBLE HEALTH CARE SOLUTIONS
FOR AMERICA'S SMALL BUSINESSES

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SMALL BUSINESS MAJORITY

Small Business Majority appreciates the opportunity to provide the small business perspective as the Senate continues its work on healthcare reform. Thank you, Chair Landrieu and Ranking Member Snowe for inviting us here today to help complete this historic task.

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

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

We must pass healthcare reform now

As President Obama stated unequivocally in his September 9 speech to Congress, the *status quo* when it comes to our healthcare system is unacceptable. Our research shows that enacting comprehensive healthcare reform is small business owners' number one need, and controlling costs is essential to ensuring our ability to obtain high-quality, affordable healthcare for ourselves, our families and our employees.

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

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

Meanwhile, our economic research released in June shows that without reform, premiums will continue to rise, taking a huge toll on the profits of small businesses and the jobs they provide. We estimate that over the next 10 years, should Congress fail to act, small businesses will spend \$2.4 trillion on healthcare premiums. Significant reform could save \$855 billion, over one-third of that amount, according to an analysis carried out for us by Massachusetts Institute of Technology professor Jonathan Gruber.

Other research backs up our deep concern about the economic impact of unfettered growth of the healthcare system. On September 9 the Commonwealth Fund issued a report that noted that small businesses would stand to benefit the most from many of the healthcare reform provisions, including extending healthcare coverage to everyone and reform of the

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

This broad consensus must be kept in mind as the Senate focuses on merging the HELP and Finance Committee bills. There are several policies that we believe will strengthen the legislation and make it more effective for 28 million small businesses and their employees.

Self-employed not adequately addressed

We also remain vitally concerned for the 22 million self-employed entrepreneurs who are the foundation of business startups and economic growth in our country. All the plans before Congress will require that self-employed business owners buy health insurance. In many cases those who are already insured will be required to purchase greater coverage at additional cost. Yet the self-employed are at a disadvantage because the tax code does not allow them to fully deduct the cost of their health insurance, as larger businesses can.

Under the current tax code, the self-employed pay a 15.3% "self-employment tax," which is levied on health insurance premiums. It puts sole proprietors at a significant disadvantage to

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

larger businesses, which do not pay taxes on the health insurance they provide employees.

For example: Mr. Jones, a family farmer, pays \$12,000 per year in health insurance premiums for his family. The effect of the current tax law can be calculated by multiplying the self-employment tax rate by the annual insurance premiums. In this case, the amount is \$1,836.

In other words, Mr. Jones is paying an extra \$1,836.00 for his healthcare each year.

Although Congress has phased in 100% deductibility, it applies only to income tax and not self-employment tax. The self-employed should be allowed to fully deduct their health insurance premiums for the purposes of both income and self-employment tax. This is money that could be used to reinvest and grow their businesses, or cover out-of-pocket expenses of their current healthcare coverage. We believe that additional sources of revenue exist to support these changes, particularly greater and more rapidly implemented cost containment measures. The self-employed are the only segment of the business population that pays this extra tax on health insurance, and we urge Congress to remedy this inequity.

Insurance exchange

We believe that it is essential to have an insurance exchange that is well designed and robust. A broad, well-functioning marketplace offering consistency, fairness and healthy competition will vastly improve the availability and affordability of coverage to small businesses and the self-employed. The exchange must include as large a pool as possible to minimize administrative costs, prevent adverse selection and drive competition among insurers. Small, fragmented and powerless exchanges will preserve the status quo.

The merged exchange provision should include:

- Authority for the exchange to negotiate with insurance providers to keep costs down as proposed by Senator Kerry
- Access to the exchange for all small businesses with fewer than 100 employees
- National or regional exchanges to ensure cost effectiveness and avoid adverse selection

Small Employer Benefit Arrangements (SEBA)

We also strongly support proposals to create "small employer benefit arrangements," or SEBAs. SEBAs would assist small businesses in delivering and managing healthcare benefits for their employees. We believe that, over time, SEBAs could be an important tool in helping small businesses manage retirement and other employee benefits as well. In the context of the current healthcare reform bills, SEBAs—currently provided for in the reform bill approved by the House Education and Labor Committee—would help small business owners and their employees navigate the insurance exchange. We would welcome the opportunity to work with the Committee on a similar provision as the Senate considers healthcare legislation.

More cost containment is needed

Cost containment provisions in the merged bill should be maximized to ensure that not only government healthcare spending, but also costs for employers and individuals, are reduced.

We recommend additional measures to:

- Promote innovations and incentives such as health information technology and health innovation zones
- Institute aggressive patient-centered delivery and payment reforms, such as bundled payments, accountable care organizations, virtual integration and medical homes
- Create stronger comparative effectiveness programs
- Contain drug and device costs, including costs for generic biologics
- Step up healthcare fraud prevention and enforcement
- Reform medical liability practices

Conclusion

As our economic study shows, doing nothing to reform our healthcare system will devastate small business in many ways—jobs will be lost, employee wages suppressed, profits reduced and business investments shrunk. To prevent this we all must stay engaged and see healthcare reform through to the finish line. As former HHS Secretary Tommy Thompson and former House Majority Leader Dick Gephardt said in a joint statement:

“If we don’t act now, health care costs will continue to devour more income of hard-working families and burden businesses trying to expand and create jobs – while leaving tens of millions of people uninsured and vulnerable to a health emergency.

“That’s unacceptable. We urge our former colleagues in Congress to work with President Obama and leaders in both houses and both parties to hammer out a final agreement this year based on common sense principles to ensure that quality care is affordable for every American.”