

# THE HIGH COST OF SMALL BUSINESS HEALTH INSURANCE: LIMITED OPTIONS

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## HEARING BEFORE THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS OF THE COMMITTEE ON ENERGY AND COMMERCE HOUSE OF REPRESENTATIVES ONE HUNDRED ELEVENTH CONGRESS

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## THE HIGH COST OF SMALL BUSINESS HEALTH INSURANCE: LIMITED OPTIONS

TUESDAY, OCTOBER 20, 2009

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,  
COMMITTEE ON ENERGY AND COMMERCE,  
*Washington, DC.*

The subcommittee met, pursuant to call, at 1:08 p.m., in Room 2123, Rayburn House Office Building, Hon. Bart Stupak [chairman of the subcommittee] presiding.

Present: Representatives Stupak, Braley, Schakowsky, Christensen, Green, Sutton, Dingell, Waxman (ex officio), Burgess, Blackburn, and Gingrey.

Staff Present: Phil Barnett, Staff Director; Bruce Wolpe, Senior Advisor; Mike Gordon, Chief Investigative Counsel; Anne Tindall, Counsel; Erika Smith, Professional Staff Member; Jennifer Owens, Investigator; Ali Neubauer, Special Assistant; Paul Jung, Public Health Service Detailee; Julia Elam, Fellow; Sean Hayes, Minority Counsel; Alan Slobodin, Minority Chief Counsel, Oversight; Peter Kielty, Minority Legislative Analyst.

Mr. STUPAK. This hearing will come to order.

Today, we have a hearing entitled The High Cost of Small Business Health Insurance: Limited Options, Limited Coverage.

Before we begin, I have a unanimous consent request. Committee staff have prepared a memorandum that summarizes information gathered in our investigation into the small business health insurance market. I ask unanimous consent that the memorandum be entered into the record.

Dr. GINGREY. Mr. Chairman.

Mr. STUPAK. Mr. Gingrey.

Dr. GINGREY. Reserving the right to object, Mr. Chairman. I understand majority staff has been working with the insurers to protect confidential medical and business information; and, of course, this information was given to the committee in good faith, with the understanding that it would not be made public before consulting with the companies that provided it. My question, Mr. Chairman, is the majority assuring us that there is no confidential or sensitive medical or business information in this staff memo, which we just got I guess the final version within a couple of hours, that will be revealed if we agree with this unanimous consent request?

Let me ask that again. Is the majority assuring us that there is no confidential or sensitive medical or business information in the staff memo that will be revealed if we agree to this unanimous consent request? And if the majority cannot guarantee that the staff

memo does not include confidential or sensitive information, would you amend your unanimous consent request to allow the majority and the minority staff to review the memo and make necessary redactions before it is included in the record?

Mr. STUPAK. Mr. Gingrey, all the names of the companies have been removed. There is, from our review, no proprietary information or business information that would be inappropriately disclosed. I am very comfortable that there is nothing in there that would cause any concern. We redacted most of it.

This memo was actually done last night. We did have some names in there. We did hear some objection from the minority side, so we did remove those names so no one would be—

Dr. GINGREY. Mr. Chairman, I appreciate that. Again, I know that some of these companies—and, obviously, I will not mention their names—but they may be in States where there is a very limited market, and I do have some concerns that it would be fairly easy to put two and two together and figure out exactly who you are referring to.

Mr. STUPAK. Again, we have reviewed it. We see nothing proprietary. We have run it by everyone that needed to be—I don't think there is any reason to have any concerns. However, if you want time to look at it, by the end of the hearing if you say there is a line that should be redacted, I will be happy to do so.

Why don't we just go ahead and put it in the record, but if you have objections at the end of the hearing, when your staff has a chance to review it closer, I will be happy to—

Dr. GINGREY. Mr. Chairman, I think that is very fair on your part. I appreciate that. And we will take you up on that.

And, with that, I will remove my reserving the right to object and go ahead and let you put it in the record.

Mr. STUPAK. Thank you. The memorandum is in the record; and if by the end—the close of this hearing, if there is an objection on a line or two, we will have a chance to discuss it and remove that.

Our purpose here is not to divulge or harm any company's business practice. We may question their business practice, but we are not here to harm their business practice through inappropriate release of information. So, with that, the memo will be made part of the hearing record.

[The information follows:]



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**MEMORANDUM**

**October 20, 2009**

**To: Members and Staff of the Subcommittee on Oversight and Investigations**

**Fr: Majority Staff, Committee on Energy and Commerce**

**Re: Supplemental Information Regarding the Small Business Health Insurance Market**

On Tuesday, October 20, 2009, at 1:00 p.m. in room 2123 of the Rayburn House Office Building, the Subcommittee on Oversight and Investigations will hold a hearing on the small business health insurance market. This memorandum provides additional information from the Committee's investigation into the practices of small business health insurers.

**EXECUTIVE SUMMARY**

In August 2009, the Committee initiated an investigation into business practices in the small business health insurance market, including private insurers' practice of setting premium rates on the basis of claims experience, health status, age, sex, and the number of employees. As part of the investigation, the Committee sent document requests to six leading health insurance companies that sell policies in the small business market: Aetna, UnitedHealth Group, WellPoint, Humana, Wellmark, and Medica. The document requests sought information about how the companies set premium rates for small businesses and about some of their largest premium rate increases in recent years. The Committee obtained thousands of pages of documents, interviewed insurance company officials responsible for overseeing the rate-setting process, and interviewed numerous small business owners who had purchased small group health policies.

The information received during the investigation reveals:

- **Small business health insurance can become more expensive, sometimes unaffordably so, when covered individuals get sick.** In the vast majority of states, insurance companies are permitted to consider the health conditions and claims

experience of covered individuals when setting premium rates. Large rate increases can occur when a single small business employee (or dependent of an employee) becomes ill. For example, in the year after Bruce Hetrick's wife received \$300,000 in care for cancer, his small business's premiums jumped 28%. His wife died before the renewal became final, and he asked his insurer to re-rate the policy without his wife. The premium increases dropped to 10%.

- **Insurance companies discriminate in premium pricing on the basis of age and sex, making older employees and women more expensive to insure and to hire.** For example, one insurer that sells small business policies in Florida charges 143% more to cover a 23-year-old woman than a man of the same age and health profile. The same insurer charges 396% more for a 60-year-old man than a 24-year-old man.
- **The small group insurance market punishes small business for being small.** Insurance companies explicitly take the size of the business into account in setting premium rates, assigning premium surcharges to the smallest firms and engaging in more aggressive medical underwriting of those customers. The largest premium increases reported to the Committee involved businesses with ten or fewer employees. For instance, when insurance enrollment at a small home construction company in Missouri dropped from 11 to 3 employees, its premiums jumped 148%.
- **Annual rate increases can be large.** Double-digit annual increases are commonplace. Four of the six insurance companies reported some annual rate increases of over 100%. Two insurers reported one or more annual rate increases of over 200%.
- **Small business premiums are highly volatile, which hampers small businesses' ability to budget and expand.** Premium rate increases can vary widely from year to year and are driven by factors over which small businesses have no control, such as the health, age, and sex of those covered on their health insurance policies.

## I. BACKGROUND

Small businesses are essential to innovation and job creation, and they are, in many respects, the engine of the nation's economy. Companies with fewer than 20 employees accounted for a quarter of the nation's job growth from 1992 through 2005.<sup>1</sup> In 2006, 96% of all U.S. firms had fewer than 50 employees, and these firms accounted for 28% of private sector employment.<sup>2</sup>

Yet, small businesses are significantly disadvantaged in comparison to large employers when purchasing private health insurance. Among the challenges facing small businesses that seek to provide health insurance are minimal bargaining power, fewer choices in insurers and plans, and higher insurance premiums stemming from greater per-employee administrative costs,

<sup>1</sup> Executive Office of the President, Council of Economic Advisers, *The Economic Effects of Health Care Reform on Small Businesses and Their Employees*, at 1 (July 2009).

<sup>2</sup> *Id.*, at 3

higher broker fees, and underwriting that allows for high premiums for sicker and older employees.<sup>3</sup> As a result, small businesses pay on average about 18% more than large employers for the same level of coverage.<sup>4</sup>

Health insurance costs for small businesses have been rising rapidly. The average annual cost of a family premium for employer-sponsored health coverage in a small firm was \$12,696 in 2009, an increase of 30% since 2004 and 123% since 1999.<sup>5</sup> During the past decade, median family income grew only 29%.<sup>6</sup> Small businesses can experience steep and unpredictable annual premium increases, which create significant challenges for budgeting and complicate plans for expansion. In a 2009 survey, 15% of small businesses reported being offered renewal premium rate increases of over 20% for the same plan they had held the year before.<sup>7</sup>

Escalating costs have inhibited small businesses' ability to offer health insurance to their employees. Nearly all employers with 1,000 or more employees offer health coverage to their employees,<sup>8</sup> but only 35.6% of businesses with fewer than 10 employees offered health insurance in 2008, a decline of 10.1% since 2000.<sup>9</sup> Most small firms not offering health coverage cite cost as the "most important reason" for their inability to offer it.<sup>10</sup>

Due to lower offer rates by employers and higher employee costs in the small group market, employees in small firms are more likely to be uninsured than those at large firms. In 2007, nearly a third of nonelderly employees in firms with fewer than 25 employees were uninsured, compared to 10% of nonelderly employees in large firms.<sup>11</sup> The situation is even

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<sup>3</sup> *Id.*, at 1.

<sup>4</sup> Jon Gabel et al., *Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii is Up, Wyoming is Down*, *Health Affairs* (May/June 2006).

<sup>5</sup> Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits – Annual Survey 2009*, at 15-16, 18 (Sept. 2009) (online at <http://ehbs.kff.org/pdf/2009/7936.pdf>).

<sup>6</sup> The Commonwealth Fund, *Out of Options: Why So Many Workers in Small Businesses Lack Affordable Health Insurance, and How Health Care Reform Can Help*, at 10 (Sept. 2009).

<sup>7</sup> The Main Street Alliance, *Direct from Main Street: Small Business Views on Health Care and Health Reform*, at 2 (Aug. 2009).

<sup>8</sup> Department of Health and Human Services, Agency for Healthcare Research and Quality, *Medical Expenditure Panel Survey – Insurance Component* (online at [http://www.meps.ahrq.gov/mepsweb/data\\_stats/summ\\_tables/insr/national/series\\_1/2008/tia2.pdf](http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2008/tia2.pdf)).

<sup>9</sup> *Id.*

<sup>10</sup> The Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits: 2008 Annual Survey*, at 35 (Sept. 2008).

<sup>11</sup> Executive Office of the President, Council of Economic Advisers, *The Economic Effects of Health Care Reform on Small Businesses and Their Employees*, at 5 (July 2009).

worse for low-income employees in small businesses: only 16% of small business employees who earn under \$15 per hour have coverage through their employer.<sup>12</sup>

Health care costs are taking an increasing toll on small business employees. Since 1999, average employee contributions for small firms have more than doubled from \$286 per year to \$625 per year for single coverage and from \$1,831 to \$4,204 for family coverage.<sup>13</sup> Deductibles are higher for employees in small firms, with 40% of small firm employees facing deductibles of \$1,000 or more, while only 13% of large firm employees pay similar amounts.<sup>14</sup> The percentage of small firm employees paying such substantial deductibles has increased dramatically in the past few years: only 16% had deductibles of \$1,000 or more in 2006.<sup>15</sup> This trend is likely accelerating as a result of the economic downturn. In a recent survey, 23% of small firms reported reducing employee benefits and 22% reported increasing employees' share of premium payments as a result of the downturn.<sup>16</sup>

Experts predict that the situation will worsen for small firms and their employees. Without reform of the small business health insurance market, small businesses will pay nearly \$2.4 trillion in healthcare costs over the next ten years; they will lose \$52.1 billion in profits; and their employees will lose \$834 billion in wages. By 2018, yearly small business job losses due to healthcare costs will total 178,000, and yearly small business healthcare expenditures will reach \$339 billion.<sup>17</sup>

## II. DISPARATE AND LIMITED REGULATION

Regulation of small group health insurance is disparate and, for some small businesses, all but nonexistent. For businesses with 51 to 100 employees, little regulation exists. For groups of 2 to 50, federal law offers some protection with regard to access to and continuity of coverage. The Health Insurance Portability and Accountability Act (HIPAA) requires insurers to offer their small group policies on a guaranteed-issue basis and to guarantee the renewal of those policies.<sup>18</sup> Insurers may, however, discontinue a particular plan if they do so for all plan participants.<sup>19</sup> In

<sup>12</sup> The Commonwealth Fund, *Out of Options: Why So Many Workers in Small Businesses Lack Affordable Health Insurance, and How Health Care Reform Can Help*, at 3 (Sept. 2009).

<sup>13</sup> Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits – Annual Survey 2009*, at 84 (Sept. 2009) (online at <http://ehbs.kff.org/pdf/2009/7936.pdf>).

<sup>14</sup> *Id.*, at 103-104.

<sup>15</sup> *Id.*, at 114.

<sup>16</sup> *Id.*, at 224.

<sup>17</sup> Small Business Majority, *The Economic Impact of Healthcare Reform on Small Business*, at 1-2, 7-9 (June 2009).

<sup>18</sup> 42 U.S.C. §§ 300gg-11(a), 300gg-12(a).

<sup>19</sup> *Id.* at § 300-gg-12(c)(1).

addition, HIPAA places no limits on the rate increases that may be charged for small business insurance.

In response to rising prices and volatility in small business health insurance premiums, most states have enacted some form of rating limitations, but the protection they offer to consumers varies widely. These regulations fall into three categories:

- ***No Regulation***: Three states and the District of Columbia place no limitations on rating practices in the small group market.<sup>20</sup>
- ***Rate Bands***: Thirty-five states place some limit on the variation in premiums among small business policyholders on the basis of health conditions or medical claims alone, and they restrict premium increases attributable to such considerations in a given year.<sup>21</sup> A smaller number of states place similar limitations on premium increases due to the size of the business or the age of its employees, and a handful of states prohibit the consideration of business size or gender at all in setting premium rates.<sup>22</sup> These limitations can be quite permissive. For instance, rating rules in some states allow a price differential of 26 to 1 for the same policy.<sup>23</sup>
- ***Community Rating***: Twelve states have enacted community rating regimes that prohibit insurers' consideration of a particular small business's claims experience or its employees' health status in setting that business's premium rates.<sup>24</sup> Instead, insurers in these states consider the claims experience of every group purchasing a particular policy and set premium rates on a policy-wide basis.<sup>25</sup> Most of these states do permit insurers to consider the age of the individuals on a policy in determining premiums, but they set limits on the premium variation based on age.<sup>26</sup>

### III. THE COMMITTEE'S INVESTIGATION OF SMALL GROUP RATING PRACTICES

On August 31, 2009, the Committee sent letters to six health insurance companies, including the four companies with the largest nationwide market share of small group health

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<sup>20</sup> See *Small Group Health Insurance Market Rate Restrictions, 2009*, Henry J. Kaiser Family Foundation (hereinafter, "Small Group Rate Restrictions"), (online at <http://www.statehealthfacts.org/comparetable.jsp?cat=7&ind=351>).

<sup>21</sup> *Id.*; Mila Kofman and Karen Pollitz, Georgetown University Health Policy Institute, *Health Insurance Regulation by States and the Federal Government: A Review of Current Approaches and Proposals for Change*, at 3 (Apr. 2006).

<sup>22</sup> Kofman *et al.*, at 3.

<sup>23</sup> *Id.*

<sup>24</sup> Small Group Rate Restrictions; Kofman *et al.*, at 3.

<sup>25</sup> Kofman *et al.*, at 3.

<sup>26</sup> *Id.*

insurance policies. The letters requested information on the companies' policies with regard to premium rate setting in the small group market and data on the highest increases offered by each company on its three most popular small business health insurance plans.<sup>27</sup> The Committee also sought documents that would explain how each company arrived at the premium rate offered to customers receiving 60 of the highest increases on each company's three most popular plans between 2007 and 2009.<sup>28</sup> Committee staff reviewed materials submitted in response to those letter requests and interviewed insurance company officials knowledgeable about premium rate setting policies. Committee staff also interviewed numerous small business owners about their experiences in the small group health insurance market.

#### **IV. HOW INSURANCE COMPANIES SET SMALL GROUP PREMIUM RATES**

In setting premiums for small business health insurance, the insurers that provided information to the Committee all employed similar procedures. The companies consider both characteristics of small groups as a whole and characteristics of the particular small group being priced in setting a premium rate. Virtually all of the companies reported that they adjust premiums based on health status, claims experience, age, sex, the size of the business, and the industry in which it operates. For the smallest businesses, most insurers stated that their internal rating procedures permitted varying rates on these grounds to the maximum extent permitted by law.

##### **A. The Base Rate**

The starting point for a small business premium rate is the "base rate," which insurers establish by looking at trends in healthcare costs and utilization across all of the small groups in a particular geographic region, generally a state. Insurance companies appear to set these rates on either a yearly or quarterly basis. The increase in a premium at renewal attributable to rising healthcare expenses across the insurer's small group book of business is called the "trend." In recent years, small businesses in many parts of the country have seen double-digit increases based on trend alone, before any group-specific increases are taken into account.<sup>29</sup>

##### **B. Group-Specific Factors**

Once the insurance company has arrived at a base rate for small businesses in a particular area, it establishes premiums for the insured businesses in that area by reference to facts specific to each small business and its employees. While variations in state law affect an insurer's ability

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<sup>27</sup> Letter from Rep. Henry A. Waxman, Chairman, House Energy and Commerce Committee, and Rep. Bart Stupak, Chairman, Subcommittee on Oversight and Investigations, to insurance companies (Aug. 31, 2009).

<sup>28</sup> *Id.*

<sup>29</sup> Committee Staff Interview, Insurance Company Official (Oct. 16, 2009) (reporting that the Northeast region has seen 10-15% increases in trend annually in recent years); Business Renewal Explanations, XXXXXX, XXXXXX (showing double-digit increases in trend in Florida for all of the last four years and double-digit increases in Utah in two of the last three years).

to consider some characteristics in some states, in most instances insurers take the following group characteristics into account:

*1. Health Status and Claims Experience*

When a small business applies for health insurance, insurance companies typically seek information about the medical histories of the individuals to be covered by that policy. Insurers gather health-related information through a variety of means, including health questionnaires, phone calls to the individuals, and in some instances, reference to commercial databases that allow companies to search the prescription drug history of any potential insured.<sup>30</sup> The company assigns a value to each condition reported by an applicant or suggested by his or her symptoms or drug history, and based on the total value accumulated by the group, the company adjusts the small business's premium to account for its perceived "risk." At renewal, the insurance company will consider whether information gained over the course of the year suggests that a modification of the small business's risk profile is warranted and will adjust premium rates accordingly.<sup>31</sup>

Medical underwriting is more extensive for the smallest businesses. For instance, several companies reported using longer form applications for groups of 2 to 10 or 2 to 50.<sup>32</sup> One insurance company reported that it is more likely to search the prescription drug history of individuals in groups of 2 to 10.<sup>33</sup>

The costs associated with investigating applicants' health histories can have a significant impact on the price of small business health insurance. Medical underwriting has a sizeable effect on the high initial-offer premiums and annual increases charged to small businesses because any "risk" discovered by insurers during this process must be spread across a very small number of people. When a single person on a small group policy becomes ill, that illness can cause an unexpected jump in rates for everyone on the policy. For these reasons, medical

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<sup>30</sup> Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

<sup>31</sup> Some companies report using a formulaic risk-assessment model, assigning pre-determined values and leaving underwriters and sales agents little or no room to modify the risk level predicted by the total value accumulated by the group. Other companies allow underwriters or sales agents latitude to alter totals based on their personal assessment of the risk suggested by the group's reported medical history or based on personal knowledge of factors not reported by the group. Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009). At least one company directs its underwriters to conduct their own "medical" research using "tools at [their] disposal" including "WebMD, Google, etc." Insurance Company Underwriting Manual, at XXXXXX.

<sup>32</sup> Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009); Insurance Company Underwriting Guidelines, at XXXXXX; Insurance Company Underwriting Compliance Manual, 2009, at XXXXXX.

<sup>33</sup> Committee Staff Interview, Insurance Company Executive, Oct. 16, 2009.

underwriting is a primary cause of marked volatility in premium rates in this market.<sup>34</sup> It also contributes to the extremely high administrative costs borne by small business health insurance policyholders,<sup>35</sup> which for example, may be as high as 27% for groups of two.<sup>36</sup>

Medical underwriting can also lock a small business into a contract with a particular company. State limitations on increases in premiums based on health status or claims experience alone—where they exist—only apply when customers are renewing their policies. If a small business experiences an increase in perceived risk that drives up premium prices on its current contract to the limit allowed by law, the premium rates offered by competing insurance companies will often be even higher, as those companies would not be bound by the annual premium increase limit.<sup>37</sup>

### 2. *Age*

Premium rates in all but one state (New York) vary based on the age of the individuals covered on a small business health insurance policy. Some states place a limit on the degree of variation allowed, but many do not, and the resulting differences can be stark. Documents produced by one insurer, for instance, show that in 2008, premiums for a 60-year-old Florida man would be 396% higher than those for a 24-year-old man in the same area for the same health insurance policy, not taking into account the medical risk profile of each man.<sup>38</sup> Consequently, in a very small firm, the replacement of only one young employee with one older employee can significantly increase the small business's premium rates.<sup>39</sup>

### 3. *Sex*

A handful of states prohibit consideration of sex in pricing premiums, but most states allow it. Those that do allow it generally place no restrictions on the impact it can have on premium rates. As a result, in most of the country, small businesses that employ women pay more for their health insurance than those which employ only men. The differences can be significant. For example, the price charged by one insurer to cover a 23-year-old woman in Florida would be 143% higher than the same coverage for a man of the same age, location, and health risk profile.<sup>40</sup>

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<sup>34</sup> Rick Curtis et al., *Health Insurance Reform in the Small-Group Market*, Health Affairs, at 152 (May/Jun. 1999).

<sup>35</sup> *Id.*

<sup>36</sup> Congressional Budget Office, *CBO's Health Insurance Simulation Model: A Technical Description*, at 9 (Oct. 2007).

<sup>37</sup> *Id.* at 156.

<sup>38</sup> See Medical Rate Tables, at XXXXXX (Dec. 18, 2007).

<sup>39</sup> Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

<sup>40</sup> See Medical Rate Tables, at XXXXXX (Dec. 18, 2007).



#### 4. *Size of the Small Business*

Predicting the future medical costs of a group with a small number of employees is a difficult and not particularly reliable exercise. Thus, all the insurance companies interviewed by Committee staff reported adding a surcharge to premiums on the very smallest businesses, where permitted.<sup>41</sup> Discriminatory pricing based on group size might explain why the largest premium increases reported were generally imposed on the smallest businesses, those with ten or fewer employees.<sup>42</sup>

#### 5. *Industry*

Some states bar consideration of the industry in which a small business operates in setting its premium rates, but several companies reported in interviews that they took industry into account where permitted to do so by state law.<sup>43</sup> This consideration persists even though, as described by one company's underwriting manual, much of the correlation between industry and risk is "conjecture and generalization."<sup>44</sup>

#### C. A Final Rate

After the base rate and allowable group-specific factors are calculated, insurance companies add administrative costs, target profits, agent commissions, and taxes to arrive at a final premium rate. Some insurance companies reported allowing underwriters or sales agents to adjust these rates on a case-by-case basis. In some instances, insurers may also set a cap on the total premium increase that would be offered to a small business in a single year. Most insurers, however, reported little or no discretion to adjust rates for customers with 50 or fewer employees, as well as no cap on how high the resulting premium increase could go.<sup>45</sup>

### V. THE MAGNITUDE OF SOME PREMIUM INCREASES

The Committee's requests to the six insurers sought information on the highest rate increases offered on each company's three most popular small group plans. The information provided by the companies shows that double-digit annual increases are not uncommon and much higher increases are possible.

One company reported that it increased the premium rate for an Arizona small business by 286% in 2008. Of the 60 highest premium increases reported by this company from 2007 to 2009, 19 were over 100% and 3 were over 200%. Another company reported that it increased

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<sup>41</sup> Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

<sup>42</sup> Five of six insurance companies surveyed by the Committee reported that most of their highest rate increases in recent years for their three most popular small group plans were quoted to firms with ten or fewer employees.

<sup>43</sup> Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

<sup>44</sup> Insurance Company Underwriting Manual at XXXXXX.

<sup>45</sup> Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

the premiums for a Kentucky small business by 232% in 2008. Of the 60 highest premium increases reported by this company, 24 were over 100% and 2 were over 200%. A third company reported that it raised annual premiums for a Texas small business by 135% in 2007. Of the 60 highest premium increases reported by this company, 9 were over 100%.

Examples of large rate increases included the following:

- In January 2008, an insurance company offered a 232% premium rate increase to an engineering services company in Kentucky. The number of employees on the plan had dropped from eight to one. This steep increase in premium rates stemmed from the change in group size, and to a lesser degree, a change in the risk profile of the remaining member on the policy.<sup>46</sup> The company rejected the offer.<sup>47</sup>
- In 2009, an insurance company offered a small technology firm in Georgia renewal of its current HMO insurance policy at a 214% increase in premiums.<sup>48</sup> The company's renewal offer increase resulted from a 65% change in the "demographic factor" because more older or female employees were employed; a 15% change in the "size factor" because the group got smaller; and a 39% change in the "group experience factor" because the health of those covered on the policy declined.<sup>49</sup>
- In 2009, a three-person company in Iowa saw premiums on its health insurance policy jump 158% in a single year.<sup>50</sup> The previous year, the firm had covered five people, four with employee-only policies and one with a family policy. At renewal, the company dropped to three employee-only policies covering men aged 27, 32, and 57.<sup>51</sup> The change in roster on the policy resulted in an 80% change in the demographic factor for the business, and the illness of one or more of the remaining employees led to a "risk level" increase of 12%.<sup>52</sup>
- In April 2009, an insurance company offered a 148% premium rate increase to small business involved in home construction in Missouri.<sup>53</sup> The plan included a \$2,000 deductible for individuals and a \$4,000 deductible for families, with a \$6,000 limit on

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<sup>46</sup> Response from Insurance Company, to Staff, House Committee on Energy and Commerce, at XXXXXX, (Sept. 24, 2009).

<sup>47</sup> *Id.*

<sup>48</sup> Response from Insurance Company to Staff, House Committee and Commerce, at XXXXXX, (Oct. 13, 2009).

<sup>49</sup> Changes in Rating Factors, at XXXXXX (2009).

<sup>50</sup> Renewal Change Rate Detail, at XXXXXX (Mar. 26, 2009).

<sup>51</sup> Renewal Detailed Census, at XXXXXX (Mar. 26, 2009).

<sup>52</sup> Renewal Change Rate Detail, at XXXXXX (Mar. 26, 2009).

<sup>53</sup> Response from Insurance Company, to Staff, House Committee on Energy and Commerce, at XXXXXX, (Sept. 24, 2009).

out-of-pocket costs for a family.<sup>54</sup> In 2008, the business had 11 employees on its health insurance policy, but only 3 remained on the policy at the time of renewal.<sup>55</sup> This large decrease in the number of covered individuals and the less favorable demographic make-up of those who remained—they were older or more likely to be female—led the insurance company to raise the group’s premium rates.<sup>56</sup> The business rejected the offer.<sup>57</sup>

- In 2008, an Iowa small business saw a 141% increase in premiums due almost entirely to a change in the demographic make-up of the firm.<sup>58</sup> In the previous year, the company’s health insurance policy covered three employees, one with coverage for the employee and his or her spouse and two with coverage for their spouses and children. Upon renewal, only two employees remained on the policy: a 43-year-old man with three dependents and a 62-year-old woman who covered only herself.<sup>59</sup> Medical claims on the policy had decreased for the year.<sup>60</sup> Nonetheless, the group received a sharp increase in premiums due to a 117% change in its demographic factor.<sup>61</sup>
- In 2007, a two-person business in South Dakota received a renewal offer that included a 103% increase in premiums.<sup>62</sup> In the previous year, the business bought coverage for two families, but in 2007 it reduced the number of lives covered to just two employees at the firm—a 60-year-old man and a 61-year-old woman.<sup>63</sup> This change in the sex and/or age of those covered on the policy led to a 75% increase in the group’s demographic factor, and a change in the health condition of those covered led to a 13% increase in the risk ascribed to the group.<sup>64</sup>

## VI. CASE STUDIES

As part of the Committee’s investigation, staff interviewed individual small business owners who had faced hardships maintaining health insurance coverage. With the permission of the business owners, the Committee also obtained documents relating to their health insurance

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<sup>54</sup> Renewal Offer Letter, at XXXXXX (Feb. 25, 2009).

<sup>55</sup> Change in Census, at XXXXXX (Apr. 1, 2009).

<sup>56</sup> Response from Insurance Company, to Staff, House Committee on Energy and Commerce, at XXXXXX, (Sept. 24, 2009).

<sup>57</sup> *Id.*

<sup>58</sup> Renewal Rate Change Detail, at XXXXXX (Aug. 30, 2009).

<sup>59</sup> Renewal Detailed Census, at XXXXXX (Aug. 30, 2009).

<sup>60</sup> Renewal Claims Experience, at XXXXXX (Aug. 30, 2009).

<sup>61</sup> Renewal Rate Change Detail, at XXXXXX (Aug. 30, 2009).

<sup>62</sup> Renewal Rate Change Detail, at XXXXXX (Mar. 17, 2007).

<sup>63</sup> Renewal Detailed Census, at XXXXXX (Mar. 17, 2007).

<sup>64</sup> Renewal Rate Change Detail, at XXXXXX (Mar. 17, 2007).

policies from their health insurers. These case studies illustrate the problems encountered by many small business owners in obtaining and retaining health insurance coverage.

**A. Hetrick Communications – Indianapolis, IN**

Bruce Hetrick owns a small advertising and public relations firm in Indianapolis, Indiana, with 15 employees. The firm pays for 80% of health insurance premiums for employees and 50% for dependents. Mr. Hetrick's wife was an employee of the company covered by the group policy. In 2003, his wife was diagnosed with oral cancer. The cancer metastasized to both lungs in 2004, and she passed away on March 5, 2005. During the final year of his late wife's life, her health insurance costs totaled more than \$300,000 for her cancer treatment.

In January 2005, when the policy came up for renewal, the firm was quoted a 28% increase in health premium costs.<sup>65</sup> After his wife passed away, in March 2005, Mr. Hetrick requested a re-quote. WellPoint sent a re-quote with a health premium increase of only 10%.<sup>66</sup>

**B. Affinity Gallery – Louisville, KY**

Patricia Reilling operated an art gallery in Louisville, Kentucky, and obtained small business coverage from Anthem BlueCross and BlueShield (WellPoint) through the Kentucky Retail Federation in 1990. From 1994 to 2009, she worked as a design and art consultant with no other employees. For each of these 15 years, Ms. Reilling's one-person group policy was renewed annually by WellPoint.<sup>67</sup>

In March 2008, Ms. Reilling was diagnosed with breast cancer. She had a bilateral mastectomy in April 2008. During her multiple subsequent reconstructive surgeries, she contracted a severe MRSA infection and required two emergency surgeries in January 2009. Ms. Reilling's medical expenses in 2008 far exceeded those of any prior year under her WellPoint plan.

In April 2009, WellPoint initiated an audit of Ms. Reilling to confirm her eligibility for the policy in force.<sup>68</sup> WellPoint then terminated her policy as of July 1, 2009. When the company terminated Ms. Reilling's policy, it offered her the opportunity to purchase an individual policy. However, Ms. Reilling could not afford the quoted premium, which was more

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<sup>65</sup> *Id.* Estimated Monthly Employee Benefit Premium Options, at WLP-HEC-4-00000230, 247.

<sup>66</sup> 2005 WellPoint Re-Quote Summary provided to Committee staff by Bruce Hetrick.

<sup>67</sup> Testimony of Patricia Reilling, before the House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, *Terminations of Health Policies by Insurance Companies: State Perspectives and Legislative Solutions* (July 27, 2009).

<sup>68</sup> Letter from Anthem Blue Cross and Blue Shield to Affinity Gallery, Inc. (Apr. 21, 2009).

than double her prior rate.<sup>69</sup> Ms. Reilling appealed the decision to WellPoint's senior management, but the appeal was denied.<sup>70</sup> Ms. Reilling testified at the Subcommittee's field hearing in New Albany, Indiana, on July 27, 2009.

**C. Bi-State Muffler & Brake Inc. – Davenport, Iowa**

Mick Landauer owns Bi-State Muffler & Brake Inc., which includes two muffler shops in Iowa and Illinois. The business has 11 employees, 9 of whom are on the group plan. Health insurance costs for the firm have been steadily rising in recent years. In addition to paying a significant portion of the total premiums, the company pays for half of the employees' annual deductible.

Mr. Landauer was born with congenital heart disease that has required him to receive expensive medical care in recent years. Wellmark quoted a 42% increase for renewing the same plan in 2009.<sup>71</sup> The rate increase was due in large part to the Mr. Landauer's claims experience, which is reflected in the "risk level" used by Wellmark to calculate the renewal premium rate.<sup>72</sup>

Instead of accepting this increase, Mr. Landauer chose a less generous plan that resulted in a 25% premium increase and significant increases in deductibles and out-of-pocket expenses.<sup>73</sup> In order to keep insurance costs from continuing to rise for his employees, Mr. Landauer is considering removing himself from the company policy in 2010.

**D. St. Petersburg Glass and Mirror – St. Petersburg, Florida**

Fred Walker owns St. Petersburg Glass and Mirror in St. Petersburg, Florida. The company provides health insurance to three of its four employees (the fourth is on Medicare). The monthly premiums total \$1,253.93, half of which is paid by the company. Because of the impact of the economic downturn on his business, Mr. Walker was considering dropping health insurance for all of his employees in early 2009. However, before he could make that decision, one of his employees discovered she had breast cancer. Because she would not have access to insurance if he canceled the group plan, Mr. Walker decided to renew the coverage for another year. As a result, the employee was covered for her cancer treatments. This year, UnitedHealth proposed a 14.5% premium increase.<sup>74</sup> Rather than accept the premium increase, Mr. Walker

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<sup>69</sup> Letter from Kim Ellis, Regional Vice President of Underwriting, Anthem to Patricia Reilling (July 1, 2009).

<sup>70</sup> Letter from Deb Moessner, President & General Manager, Anthem Blue Cross and Blue Shield, to Patricia Reilling (July 13, 2009).

<sup>71</sup> Notice of Renewal Rates, at WMK009103 (Dec. 17, 2009).

<sup>72</sup> Renewal Rate Change Detail, at WMK009104 (Dec. 17, 2008).

<sup>73</sup> Alliance Select Copayment Plans – Renewal Alternates, at WMK009099 (March 16, 2009).

<sup>74</sup> Business Renewal Explanations, at UHG\_EC3\_001729; Renewal Offer (Apr. 1, 2009), at UHG\_C3\_001704.

chose a less generous plan that almost tripled the total out-of-pocket maximums for in-network care to \$6,000 for an individual and \$18,000 for a family.<sup>75</sup>

## VII. CONCLUSION

A patchwork of ineffective state regulations leaves small businesses vulnerable to large and unpredictable rate increases when employees get sick. Insurers also discriminate in rate-setting based upon group size, sex, and gender. Small changes in the demographic composition or health status of a small firm's employees can result in large rate hikes that can exceed 100% and even 200% in a single year.

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<sup>75</sup> Review of Medical Coverage and Rates (Apr. 1, 2009), at UHG\_EC3\_1708; UnitedHealthCare Insurance Company Group Policy for St. Petersburg Glass and Mirror (Apr. 1, 2009), at UHG\_EC3\_1424.

**OPENING STATEMENT OF HON. BART STUPAK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN**

Mr. STUPAK. The chairman and ranking member and the chairman emeritus will be recognized for 5 minutes for an opening statement. Other members of the subcommittee will be recognized for 3-minute opening statements. I will begin.

Today's hearing is the fourth of a series of subcommittee hearings on business practice in the private insurance market. Earlier this year, we held hearings on the insurance industry practice of terminating coverage after a policyholder becomes sick and files a claim. In our investigation, we learned that if your insurance company believes your illness may be costly, they will go back and re-examine your initial application to find any excuse to cancel your coverage. As health insurance industry executives brazenly told us, this practice, known as rescission, will continue until there is a national health care reform to expressly prohibit it.

Last week, we held a hearing on the problem of underinsured, which occurs when someone has health insurance but their coverage is inadequate, leaving them with a limited coverage when they need it the most. We heard compelling stories from Americans who purchased insurance, paid their premiums, and expected to be protected in the event of a health crisis. When that crisis struck, they realized that their insurance was woefully inadequate to cover the high costs incurred to treat themselves or their family members.

Today, we continue our investigation of the private health insurance market with a focus on the challenges faced by small businesses. Small businesses are a cornerstone of the American economy. They are the American dream. They employ 59 million American workers and created a quarter of the Nation's jobs from 1992 through 2005.

In August of 2009, the committee sent document requests to six leading health insurance companies that sell policies in the small business market, seeking information about how they set premium rates and about some of the largest premium rate increases in recent history. What we learned from that investigation was the insurance companies take advantage of lax State laws and regulations in order to purge unprofitable small business policies.

Because Federal law guarantees small businesses cannot be denied insurance once they have purchased it, insurers impose unpredictable and increasingly unaffordable increases. These unsustainable increases forces a small business to drop their health insurance because it is no longer affordable. Thus, the small business is purged. These increases are based on factors that are beyond the control of small businesses, such as employee health status, the size of the small business, and the age and gender of the employees.

As a result of these discriminatory pricing practices, small group premiums are subject to unpredictable and enormous increases. Insurance companies routinely impose double-digit increases in premiums and, in some case, premiums increase more than 200 percent.

Some of the more shocking cases that the committee uncovered include in January of 2008 an insurance company offered a 232

percent premium rate increase to an engineering service company in Kentucky. The number of employees on the plan had dropped from eight to one.

In 2009, another insurance company offered a small technology firm in Georgia renewal of its current HMO insurance policy at a 214 percent increase in premiums. The basis of the rate hike was that the average worker at that firm became older and/or more likely to be female and the size of the company decreased.

Large annual premium increases can be devastating for small firms. As small firms struggle to stay afloat during this economic downturn, health insurance costs consume an even greater portion of company profits and make it even harder for these companies to cover all persons. Even before this most recent economic turndown, the cost of employer-sponsored health insurance was the primary concern of small businesses.

The average cost of a family premium for a small business health insurance plan is nearly \$13,000. This is up 123 percent since 1999, and the median family income grew only 29 percent over the same period. Because of these higher costs, nearly a quarter of all small businesses are making the difficult decision to reduce their health benefits.

Small business employees are shouldering a higher burden of their costs. Over the last 10 years, worker contributions for health insurance premiums have more than doubled, while their deductibles have greatly increased. Some businesses have even had to take the drastic step of eliminating employer-sponsored coverage altogether.

Less than 50 percent of the smallest firms, those with fewer than 10 employees, offer coverage. As a result of reductions in small group coverage, more than half of all small business employees in 2007 were either uninsured or underinsured during the year.

It is clear that the high cost of health insurance is crippling small businesses in our country, just when we need our Nation's small businesses to contribute to job growth and economic recovery. We must reform our health care system so it does not punish those small business owners who choose to do the right thing and provide coverage for their workers.

Today, we will hear testimony from several small business owners about the challenges they face in today's small group health insurance market.

Mr. Mick Landauer is the owner of Bi-State Muffler & Brake, Incorporated, for the past 30 years. He has shops in Iowa and Illinois, employing 11 workers. This year, he was quoted a premium increase of 42 percent from his current insurer. Mr. Landauer believes that this increase is due to his own congenital heart condition, which has required three heart surgeries in the past and probably more in the future.

This year, instead of accepting this outrageous increase, he opted to increase his employees' deductible to \$8,000 per individual and \$16,000 per family. Next year, he plans to take himself off the company's plan in order to reduce the insurance rates for his business. More importantly, he believes that it is the right thing to do for his employees.



Mr. Bruce Hetrick owns Hetrick Communications in Indianapolis, Indiana, with 15 employees. His company received double-digit rate increases from his carrier earlier this year.

His insurance plan also covered his late wife, who developed cancer and incurred over \$300,000 in treatment costs in her last year of life. In that year, Mr. Hetrick's health premiums rose 28 percent. After his wife passed away, his insurance company requoted the policy. The premium increase was rolled back to 10 percent.

Mr. Fred Walker owns St. Petersburg Glass and Mirror in St. Petersburg, Florida. He has offered health insurance since he started his company 15 years ago. His carrier has increased his premium rates every year, including a 14.6 percent increase this year.

To keep his business afloat during this downturn, he was considering dropping health coverage altogether until he found out his secretary had breast cancer. He decided to do the right thing and maintain his company's coverage so his secretary could have coverage for her treatment. But, to afford coverage, he had to take a plan with a \$6,000 deductible. Because the group coverage was renewed, his secretary has been able to obtain the treatment she needs for her cancer.

We will also hear from Dr. Linda Blumberg, an expert on health insurance in the small group market, on the effect of health insurance costs on small businesses.

The U.S. House of Representatives will soon vote on H.R. 3200, America's Affordable Health Care Choices Act of 2009. H.R. 3200 contains critical insurance reforms that will end abusive insurance company practices. Under the bill, insurance companies can no longer rescind policies after people get sick based on minor mistakes or technicalities. The bill prohibits the type of annual and lifetime caps on coverage that lead many individuals to be uninsured or underinsured, and insurers will no longer be able to discriminate against small businesses based on how small they are or the health status of their workers.

We must reform health insurance so that small businesses can compete on a level playing field with large employers and lead the way for our Nation's economic recovery.

That concludes my opening statement. I would next turn to Mr. Gingrey for an opening statement, please.

**OPENING STATEMENT OF HON. PHIL GINGREY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA**

Dr. GINGREY. Chairman Stupak, thank you. Thank you for holding the hearing.

Our economy owes most of its success to the people who will testify before the committee today, Americans who work in a small business. Their prominent place in the American economy makes this hearing today an even more important one.

Small businesses create jobs and wealth. Surveys have shown that companies with as few as 20 employees are often responsible for a quarter of the country's job growth; and, in recent years, the vast majority of the United States firms had fewer than 50 employees.

First and foremost, Congress must enact policies that help these businesses grow and promote job creation. As we continue to re-

view potential reforms for the health care system, we must also find a way to enact new policies and regulations that will help our small business owners provide their employees with quality, affordable health care.

Since 1999, the average annual cost of a family premium for employer-sponsored health coverage in a small firm has increased over 120 percent. That is about 12 percent a year over the 10-year period.

The three small business owners today will testify to a system that offers small businesses few options and increasing costs. They will all testify to the basic problem facing small business owners. With fewer employees, one illness can make health care unaffordable for all, for the entire employee group.

Bruce Hetrick will testify that his wife's cancer resulted in \$300,000 in health care costs. When it came time to renew his policy, the premium was scheduled to increase nearly 30 percent. His wife passed away a month before the new premium took effect. When the insurance company learned of this, they changed the premium increase to just 10 percent, a particularly cold comfort, I am sure.

Mr. Hetrick, I wish to convey my condolences for your loss and thank you for your courage in testifying today.

Fred Walker's business was hit hard by the economic turmoil of the past 2 years, so much so that in February of this year he had decided to discontinue the company's health care plan. Only then he learned that an employee had been diagnosed with breast cancer. For Mr. Walker the choice was easy. He decided to continue the employee health care plan, but he was facing a 14 percent increase in the premiums last year. Today, he worries that the next premium increase will be much more substantial and very possibly unsustainable.

Mr. Walker, I thank you also for taking care of your employee and for being here and appearing before the committee.

Michael Landauer has been operating the Bi-State Muffler & Brake for 30 years. He has been able to offer his employees' health care, but today those costs are spiraling out of control. Over the last 2 years alone, his deductibles have quadrupled. Mr. Landauer plans to remove himself from his own plan next year because his own health care costs are what essentially is driving up the premiums for the rest of his employees.

Mr. Landauer, thank you again for being here and testifying.

I note the title of this hearing is The High Cost of Small Business Health Insurance: Limited Options, Limited Coverage. It is a sad truth small business owners have few options when it comes to purchasing health insurance.

Congress has an opportunity to enact reforms that address these skyrocketing costs. However, I recognize that there are ideological differences among this body regarding how we provide small business owners with more affordable health care options. To be frank, we do them and millions just like them a disservice by insisting that the path to reform is singular, one size fits all. This Congress should consider high-risk pools that can be designed to offer those with chronic illnesses affordable coverage without requiring their co-workers or employees to pay more for their own coverage. We

should also give small business owners the ability to choose the coverage they want, free of mandates for care that require them to purchase services that they don't need or want. These are but two examples of many ideas that Republicans want to share with our President and Democratic colleagues, if they would only take the necessary time to listen.

I thank the witnesses again for appearing before the committee today. I look forward to your testimonies and the dialogue to follow.

Thank you, Chairman Stupak; and I yield back the balance of my time.

[The prepared statement of Mr. Gingrey follows:]

U.S. Congressman Phil Gingrey  
Opening Statement

Committee on Energy and Commerce  
Subcommittee on Oversight & Investigations

HEARING: *"The High Cost of Small Business Health Insurance: Limited Options,  
Limited Coverage"*

Thank you, Chairman Stupak for holding  
this hearing.

Our economy owes most of its success to the  
people who will testify before this  
committee today – Americans who work in  
a small business. Their prominent place in

the American economy makes this hearing today an important one.

Small businesses create jobs and wealth.

Surveys have shown that companies with as few as 20 employees are often responsible for a quarter of the country's job growth, and in recent years the vast majority of U.S. firms had fewer than 50 employees. The Members of this body should do everything they can to enact policies that help these businesses grow.

As Congress continues to review potential reforms for the health care system, we must also find a way to enact new policies and regulations that will help small business owners provide their employees with quality, affordable health care. Since 1999 the average annual cost of a family premium for employer-sponsored health coverage in a small firm has increased over 120%.

The three small business owners today will testify to a system that offers small

businesses few options and increasing costs.

They will all testify to the basic problem facing small business owners – with fewer employees, one illness can make health care unaffordable for all.

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new premium took effect. When the insurance company learned of this, they changed the premium increase to 10% -- a particularly cold comfort. Mr. Hetrick, I wish to convey my condolences for you loss and thank you for your courage in testifying today.

Fred Walker's business was hit hard by the economic turmoil of the past two years—so much so that in February of this year he had decided to discontinue his company's health



care plan. He then learned that an employee had been diagnosed with breast cancer. For Mr. Walker, the choice was easy – he decided to continue the employee health care plan but saw a 14% increase in his premiums last year. Today, he worries that the next premium increase will be much more substantial and unsustainable. Mr. Walker, I thank you for taking care of your employees and for appearing before this Committee today.

Michael Landauer has been operating Bi-State Muffler and Brake. For 30 years, he has been able to offer his employees health care, but today those costs are spiraling out of control. Over the last two years alone, his deductibles have quadrupled. Mr. Landauer plans to remove himself from his own plan next year because his own health care costs are driving up the premiums for his employees. Mr. Landauer, thank you for testifying before this committee.

I note that the title of this hearing is “The high cost of small business health insurance: *limited options*, limited coverage.” It is a sad truth: small business owners have few options when it comes to purchasing health insurance.

Congress has an opportunity to enact reforms that address these skyrocketing costs. However, I recognize that there are ideological differences amongst this body regarding how we provide small business

owners with more affordable health care options. To be frank, we do them – and millions just like them – a disservice by insisting that the path to reform is singular.

This Congress should consider high risk pools that can be designed to offer those with chronic illnesses affordable coverage without requiring their coworkers or employees to pay more for their own coverage. We should also give small business owners the ability to choose the

coverage they want free of mandates for care that require them to purchase services they don't want or need. These are but two examples of the many ideas that Republicans want to share with our President and Democratic colleagues – if they would only take the time to listen.

I thank the witnesses again for appearing before this Committee today. Thank you, Chairman Stupak. I yield the balance of my time.

Mr. STUPAK. Thank you, Mr. Gingrey.  
Mr. Waxman, chairman of the full committee, opening statement, please, sir.

**OPENING STATEMENT OF HON. HENRY A. WAXMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. WAXMAN. Thank you very much, Mr. Chairman.

Today, we are going to hear about the difficulties small businesses face in finding and keeping affordable health care coverage for their employees.

Last summer, Chairman Stupak and I initiated an investigation into insurance company practices in the small group market. The committee obtained thousands of pages of insurance documents, interviewed company executives, and heard stories from numerous small business owners. What did we learn? Simply put, the health care market for small business health insurance is fundamentally flawed. Rising health insurance costs are wreaking havoc on small businesses and their employees. As one of today's hearing witnesses put it, health care and health coverage inflation is small business enemy number one.

Many small business owners, like the ones we will hear from today, want to provide health coverage for their employees. It is not only the right thing to do, but it also makes good business sense because it helps them recruit and retain better employees. But the current system stacks the deck against small businesses. Small firms pay premiums that are 18 percent higher than what large companies pay for the same level of coverage, and insurance companies can legally discriminate against small firms when setting premium rates. If a small firm employee gets sick, the insurance company can hike up the premium rates in order to recover its costs.

Insurers can also charge discriminatory rates based on the age and gender of the small firm's employees. They can charge higher premiums to small businesses that employ older people or young women who might get pregnant, and these discriminatory rate-setting practices are perfectly legal under our current health insurance system.

Moreover, the insurance companies punish small businesses for being small. Insurers charge the highest premium to the smallest firms, who, unlike large businesses, cannot spread risk among many employees.

Our investigation revealed that annual premium increases can be staggering. Insurers take advantage of weak State regulation of premium rates in order to purge from their rolls the less profitable small group policies, and they do this by making their insurance plans too expensive for a small business to afford.

Small businesses commonly face double-digit increases in their health insurance premiums; and insurers impose even steeper rate hikes on the small businesses that happen to have a sick employee, employ more women than men, or have an older-than-average workforce.

The committee's investigation revealed that several insurers have imposed premium increases of greater than 100 percent on

small business customers. Two insurers have imposed rate hikes of greater than 200 percent in a single year.

Given the sky-high costs of small group coverage, it is not surprising that small businesses are less likely than large to offer coverage; and, as premiums skyrocket in this market, the share of small businesses that offer group plans continues to decline.

The committee has investigated a variety of private insurance practices, and one common theme has emerged. Insurance companies compete not on the basis of who has the best record of keeping their customers healthy but based on who is best at avoiding covering people who need life-saving and expensive health care. When we examined the individual health insurance market, we learned that companies will cancel policies after a policyholder gets sick and files claims.

In the small group market, insurers don't cancel policies. Instead, they increase rates to unaffordable levels so they can unload small businesses with sick employees from their plans. In each case, the insurance companies have created a win-win scenario for themselves. If health claims are low, the company collects premiums and makes money. If policyholders get sick, the company finds a way to get rid of the unprofitable policy.

But that is not how insurance is supposed to work. The purpose of insurance is to spread risk across large numbers of people so that when some people get sick they receive needed care without experiencing financial ruin. In today's private health insurance market, too often insurance companies simply aren't there when they are needed the most. It is time to fix this broken system and ensure that everyone has access to affordable, reliable insurance.

Thank you, Mr. Chairman.

Mr. STUPAK. Thank you, Mr. Chairman.

Mrs. Blackburn, 3 minutes for an opening statement, please.

**OPENING STATEMENT OF HON. MARSHA BLACKBURN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE**

Mrs. BLACKBURN. Thank you, Mr. Chairman.

Welcome to our witnesses. We are glad that you are here. We appreciate your submitting your testimony in advance so that we could prepare for the hearing today, and we welcome each of you. We will be interested to hear your comments and to get your thoughts on the issue that is before us.

Last week, we had a hearing that has been mentioned. It was on the rescissions issue. And as I said then and will restate today, I favor patient-centered, free market-oriented health care solutions that will keep people covered and employed, which is what we want to do.

And we know that you all want to be able to keep people employed, and I think it is especially important for you, because we know that small business firms that employ 500 or fewer individuals, that comprises half, half of the American people that work in the private sector. And that should not be lost on us as we look at how we approach health care reform. Small businesses have created more than 72 percent of the new jobs created across this coun-

try in recent years; and, because of that, we have a true appreciation for what you do.

I do have concerns with the plans that the Democrats have brought forward on health reform. I was looking at some research today. Basically, their reform plan includes a \$544 billion surtax on what is termed "the rich". But we all know that is primarily those of you who are small business owners and are going to bear the brunt of some of the reform efforts that have been mentioned and brought forward. According to data from the IRS, more than half of those targeted under the Democrats' health care surtax are the small business owners.

Now, this is of concern to me because I come from Tennessee, where we have had the test case for public option health care. It was put in place in late 1994. It is a program called TennCare.

Our small business owners, while I was in the State Senate there, worked with us repeatedly because of their concern for the way the program was structured; and what we saw happen with the advent of public option health care in our State was that the cost of insurance went through the roof for our employers. It escalated more than the national average. And you have heard my colleagues talk about the rate of increase in some of their States.

We are also concerned as we look at increased taxes and the mandates and bureaucracy, and we have read some of the estimates that health reform policies that have been proposed from this body would cost as many as 5 and a half million American jobs. We don't want to see health care become such an expense that you can't afford to keep your doors open. I am on your side in making certain that this stays affordable. We are looking at other options.

I thank you for being here.

I yield back my time.

[The prepared statement of Mrs. Blackburn follows:]



**Congressman Marsha Blackburn**  
**Opening Statement for Energy and Commerce**  
**Oversight and Investigations Subcommittee Hearing**  
**“The High Cost of Small Business Health Insurance: Limited**  
**Options, Limited Coverage”**  
**October 20, 2009**

I want to welcome all the witnesses and thank them so much for giving their time and for being here to share their experiences.

Mr. Chairman, I thank you for the hearing today to focus on small business insurance coverage and options.

As I said at last week’s hearing, I support free-market-oriented, patient-centered insurance reform options to keep people covered AND employed.

Small business is the backbone of the American economy. Half of all private workers in the U.S. are employed in firms with fewer than 500 workers. In the past, small businesses have created more than 72 percent of new jobs across the country.

Unfortunately, the Democrat’s health reform plan includes a \$544 billion surtax on the so-called “rich” to help pay for their government takeover of health care. According to data from the IRS, more than half of those targeted under the Democrats’ health care “surtax” are small business owners.

Increased taxes coupled with mandates and the bureaucracy that goes with it, will increase costs and destroy as

**many as 5.5 million American jobs over the next 10 years. This is exactly what happened in Tennessee under TennCare.**

**Republicans have offered health care solutions better solutions to help small businesses create jobs and provide quality, affordable health care to their employees.**

**Let's increase access to Health Savings Accounts and allow for more flexibility for small business owners to provide coverage options. Small businesses should have the option to join together to purchase health insurance for their workers the way large businesses can. Also, curbing the practice of defensive medicine would do much to reduce costs for small business owners, as well as lowering taxes.**

Mr. STUPAK. I thank the gentlelady for her opening statement, but I must correct it. H.R. 3200 does not impose a super tax on small businesses. It is on individuals who have incomes more than a million dollars. It is not on small businesses. I am sure it was just a misstatement or something. I just want to clarify the record.

Mrs. BLACKBURN. Mr. Chairman, I would love to submit the memo I have in my hand, if that would be acceptable.

Mr. STUPAK. I have no problem with you submitting a memo in hand, but you have got to have your facts straight.

I mean, 1 percent of income between those who make 350 to 500,000 and 1.5 percent between those that make 500 to a million. The issue is there is no extra tax on small businesses. That is what your statement said, 500-some billion. That just is not true. It is only 1.2 percent of all taxpayers, individual taxpayers, not businesses that would have to pay the surtax.

Mrs. BLACKBURN. Mr. Chairman, most small businesses file as a sub S or file on a regular 1040. And I think 22 members of your caucus also have written the Speaker with concerns about this very issue for those small businesses.

I join many of our small business owners. They are not claiming party affiliation. They are claiming concern. Many in our State have seen it because of the impact of TennCare.

I raise it not as an item of controversy but as an item of concern that I have for our Nation's small businesses. And I think that, as we move forward, you have always been good to work with us on issues, and I would look forward to working with you to make certain that we address this so that it does not affect our Nation's small business owners.

And I appreciate the hearing today.

Mr. STUPAK. Well, again, let me just state, even if you want to call it a subchapter S, the tax is not on business. It is on individuals, and those with the highest 1.2 percent of all taxpayers would have to pay it. It is not on businesses. I guess we can argue that all day, but it is not on businesses. I want to make that clear. It is on individuals. OK? And that is from the Joint Tax Committee.

Mrs. BLACKBURN. They are business owners, sir. Thank you.

Mr. STUPAK. I am not arguing where you are getting your income from. What I am saying is it is on individual income, not on businesses.

Mr. Braley for an opening statement, 3 minutes.

**OPENING STATEMENT OF HON. BRUCE L. BRALEY, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA**

Mr. BRALEY. Thank you, Mr. Chairman; and thanks to all of our witnesses for joining us today.

The problems that we are here to talk about are all too familiar to me as a small business owner for 20 years before I came to Congress. For the last decade that I can recall, the place where I worked, where I was a small business owner, faced a minimum of 15 percent premium increase notices every year and a maximum of 47 percent.

When you are a small business faced with that challenge, you have limited options; and one of the options that we pursued almost every year was filling out multiple insurance applications at

four, five, six, seven different companies in search of a better option for the employees that we cared about. And yet almost every year we were faced with the harsh reality that in my State of Iowa 80 percent of the health insurance market is dominated by two companies; and so there were very, very few cost-effective options available to small business owners.

And I am also very familiar with the impact that one severe illness among your employees or a covered member of their family can have on dramatically increasing the cost of a small business's insurance costs. We had employees who were diagnosed with multiple sclerosis. We saw our premiums skyrocket because of the enormous costs of caring for that lifelong disease. We had employees diagnosed with cancer, who suffered substantial health care costs. That also impacted our next year's premium costs.

These are not things that are abstract to small business owners. These are the challenges they face every day. And they want to try to provide the best possible coverage for their employees. But when we see what is happening right now with health care costs projected to go up 10.5 percent again next year, according to the health insurance industry itself, we know that that is not just going to be a dollar-for-dollar pass through to small businesses. Because if you look at the trends, it is usually about a two-fold or three-fold increase in premium costs.

And that is why, to quote our friends on the other side, free market-oriented health care solutions aren't working for small businesses. We have had high-risk pools that have been available in many States. It has not solved the problem that small business owners face. And that is why it is time to look at new, creative solutions like a public health insurance option to inject more competition into a free market system that does not have competition in many States and to give small business owners true choices in the type of coverage they are looking at to provide to their employees.

And there was a reference to this surcharge. Well, the IRS has done analysis of every congressional district in the country in terms of who would be impacted by the surcharge that is in the House health care bill; and in the First District of Iowa 99.33 percent of my constituents would not be impacted at all by that surcharge.

So I want to thank everyone for being here today. I am proud to have a witness from my district, Mick Landauer; and I look forward to his testimony.

[The prepared statement of Mr. Braley follows:]

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ENERGY AND  
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CHAIRMAN

**Congress of the United States  
House of Representatives  
Washington, DC 20515**

**Statement of Congressman Bruce Braley  
Oversight and Investigations Subcommittee  
"The High Cost of Small Business Health Insurance: Limited  
Options, Limited Coverage"  
October 20, 2009**

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Thank you, Chairman Stupak and Ranking Member Walden for holding this important hearing today on the small business health insurance market, and the health insurance challenges faced by small business owners and employees. As we continue to debate and move forward with healthcare reform in Congress, this issue is just yet one more example of why we urgently need to pass comprehensive healthcare reform legislation which will ensure that all Americans receive the healthcare coverage they need, and which will ensure that small businesses are able to provide good and affordable coverage for their employees while maintaining a profitable business.

I'm very concerned that small businesses are currently at such a disadvantage in the private health insurance market, forced to pay higher costs because of higher per-employee administrative costs, higher broker fees, and higher premiums than large businesses.

Annual premium increases are also creating challenges for small business owners trying to budget for and provide insurance to their employees. It's unfair and unsustainable that small businesses are paying on average almost 20 percent more than large businesses for the same level of coverage.

Those bearing the brunt of high small business health insurance costs are not only small business owners, but also American workers. Small business employees are receiving fewer benefits and paying higher costs for healthcare coverage, paying higher deductibles, and are more likely to be uninsured than employees at large companies. American workers should not be receiving worse and costlier coverage just because of the size of the company at which they work. And small businesses should be rewarded – not penalized – for taking good care of their employees, investing in their communities, and making vital contributions to the economy.

I'm pleased that a small business owner from my District, Mick Landauer, is here to put a human face on this problem today. Small businesses like Mick's are a critical component of the American economy, essential to job creation and innovation in my state of Iowa

and in the United States. Unfortunately, the high and rising costs of small business health insurance are leaving small business owners like Mick – who care deeply about their employees – unable to give their employees the quality benefits and coverage that they would like to provide. I'm sure far too many small business owners and small business employees across the country will be able to identify with the story that we'll hear from Mick today.

Mick's story about the rising and costly insurance rates for his small business because of his congenital heart disease also specifically exemplifies the need to ensure that insurance companies are not allowed to discriminate based on health factors. I'm glad that the healthcare reform bill we passed out of this Committee in July would prohibit this type of discrimination, which would in turn lower costs for Mick and all of his employees.

I look forward to hearing Mick's testimony and the testimony of all the witnesses today and to hearing their perspectives on what we in Congress can do to help small business owners and employees secure affordable and quality health insurance.

Mr. STUPAK. Thank you, Mr. Braley.  
Mrs. Christensen for an opening statement, please.

**OPENING STATEMENT OF HON. DONNA M. CHRISTENSEN, A REPRESENTATIVE IN CONGRESS FROM THE VIRGIN ISLANDS**

Mrs. CHRISTENSEN. Thank you. Thank you, Chairman Stupak, for holding this hearing.

Small businesses have a major stake in what we are trying to do in health care reform. As a physician and also a former small business owner, of course, and a former 10-year member of the House Committee on Small Business, the gravity of this issue and its implications have long been of concern.

Our Nation's present and future economic health thrives and flourishes based on the viability of our small businesses. They employ more than half of our country's private sector workforce and are currently responsible for three out of four new jobs. Yet, due to increasing premium rates and their already very high insurance costs, more and more of these businesses find it difficult, if not impossible, to offer their employees health insurance; and this is even more acute given the current economic crisis.

Looking to the future, the Council of Economic Advisers predicts that if nothing is done to address insurance plan practices or to slow the rise in employer health premium rates now, fewer than 20 percent of small employers will offer coverage by 2040.

The success of small businesses depend on a healthy workforce; and we all know that when one does not have insurance, needed health care is often deferred. Without healthy workers, small businesses cannot thrive. So passing a robust health bill is vital to the survival of this engine of our economy. Done right, it will level the playing field, giving small businesses the opportunity to offer affordable, quality coverage to their employees at a fair price.

I would like to also thank the witnesses for being here this afternoon to help highlight this need and the opportunity we have before us to make a difference in the strength of this important sector of our economy.

Thank you. I yield back.

Mr. STUPAK. Thank you.

Mr. Dingell for an opening statement.

**OPENING STATEMENT OF HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN**

Mr. DINGELL. Mr. Chairman, thank you.

I thank you, Mr. Chairman, for holding this very important hearing on an issue which is central to our comprehensive health care reform efforts.

The United States spends over \$1.9 trillion annually on health care expenses, more than any other industrialized nation. These costs keep rising and are a major factor in the difficulties facing American businesses in remaining competitive and profitable.

This is strikingly apparent for America's small businesses. There is no doubt that today's private insurance market is not working well for anybody but especially so for small businesses and for their workers. They are severely disadvantaged by the current U.S.



health care system's operations relative to their larger counterparts.

Small business owners and their employees are receiving fewer benefits and paying higher costs for health coverage. During the past decade, the median family income grew 29 percent, while the average annual cost of a family premium on a small firm increased 123 percent.

The U.S. health care system imposes also a heavy tax on small businesses and their employees, not often noted except by the small business people. Small businesses pay up to 18 percent more per workers than large firms for the same health insurance policy. Some of these higher costs are passed on to small firm employees in the form of lower wages or in the form of lesser benefits, and some eat into the profits of small businesses that could otherwise be used for much-needed investments.

I have heard from many small business owners in my district about their genuine desire to provide health care for their workers. Unfortunately, because of the costs, they are simply unable to do so. This impacts recruitment, retention, and places them at a very real and severe competitive disadvantage.

I want to express my particular thanks to our witnesses who have joined us today. I am happy to tell them that their testimony reminds us why it is so crucial that we pass comprehensive health care reform this year.

And, again, I want to commend you, Mr. Chairman, for having this hearing.

We understand that small businesses are critical to job growth and innovation in the U.S. economy. They are the key to our economic recovery.

In drafting comprehensive health reform legislation to the House, we have taken aggressive steps to ease the burden currently experienced by small business owners who struggle to provide health care for their employees. Under H.R. 3200, small businesses will be able to provide and to purchase health insurance through a national insurance exchange, allowing them to choose between a multitude of plans that would provide better coverage at lower costs than they could find in the current group market. Those plans would also be transparent, and those plans would also meet rigorous standards for the protection of the employer and the employee.

Small business employees will no longer be penalized for pre-existing medical conditions, a poorer health status, or age. Some small businesses that provide health insurance for their employees will receive up to a 50 percent small business tax credit to alleviate their disproportionately higher costs and encourage better coverage. Additionally, small business owners will benefit as costs for the uninsured are no longer shifted onto employers.

Mr. Chairman, I commend you again for your diligence in this matter. Today's hearing and the investigations that you have been conducting highlight the importance of our cause to deliver comprehensive health reform for the American people.

Thank you, Mr. Chairman. I yield back the balance of my time. Mr. STUPAK. Thank you, Mr. Dingell.

We will hear from Ms. Sutton from Ohio.

**OPENING STATEMENT OF HON. BETTY SUTTON, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO**

Ms. SUTTON. Thank you very much, Mr. Chairman; and thank you for holding this important hearing.

And, to the witnesses, I look forward to hearing what you have to say. Thank you for coming forward and sharing your experiences and your stories to inform our discussion and our policymaking.

You know, small businesses are the drivers of our economy; and, from 1992 to 2005, companies with fewer than 20 employees accounted for a quarter of the Nation's job growth.

And Ohio is also experiencing that kind of job growth in small businesses. From 2004 to 2005, small businesses created the only surplus in new jobs for Ohio. In those years, while larger employers saw decreases in employment, the smallest Ohio employers, those with one to nine employees, saw large increases.

Small businesses in Ohio have the ability to thrive, but health care costs pose a major impediment to their potential continued success. In 2008, Ohio's small businesses spent \$5.3 billion in health care premiums, and a Small Business Majority report found that the number could rise to 12.5 billion by 2018 without health care reform. These high costs led employers to cut benefits or, in many cases, not offer them at all.

In 2008, just 31 percent of Ohio's small businesses reported paying for health insurance for their employees. Of the ones that did, 71 percent said that they were struggling to do so; and of the ones who don't provide insurance, more than 75 percent of those said they could not afford it.

Small businesses are not unlike individuals when they are trying to buy health insurance for their employees. They don't have the bargaining power and are charged higher prices for plans that are less generous. Basically, insurance companies discriminate against them, giving them "take it or leave it" plans.

The rates and services offered can vary greatly, even for companies that are the same size and may be involved in the same business. Over the past year, this subcommittee has been active in exposing and revealing underhanded insurance practices by insurance companies. We are gathering information on the cancellation of small business plans as well as the overall business practices of insurance companies.

In a hearing last week, my colleague, Representative Schakowsky, referenced a news story in which an insurance company cancelled an entire line of insurance for small businesses in order to remove costly beneficiaries from their roles. It is unconscionable behavior, pursuing profit without regard to the wake of harm, the people that they leave behind stranded not only with health problems but with no way to access the care they need to overcome them.

We must get to the bottom of these harmful practices, and this hearing is a good step in that direction. As I said, small businesses are part of a growing list of people and institutions, entities that need health care reform now in order to succeed.

And I yield back.

Mr. STUPAK. Thank you, Ms. Sutton.

Mr. Green for an opening statement, please.

Mr. GREEN. Thank you, Mr. Chairman.  
I would like to place my full statement in the record.  
Mr. STUPAK. Without objection.

**OPENING STATEMENT OF HON. GENE GREEN, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. GREEN. And thank you for holding this hearing.

Because small businesses, particularly in a tough economy, face such a hard decision. Because in my earlier life I actually helped manage a small business with 13 employees and had to negotiate with insurance companies. We had a bargaining unit, so our line employees, our production employees would be covered, but we wanted something to cover all 13. And I can tell you a lot of experiences, and I will tell you one. Because we would sign a 3-year contract, and in its first year they would always raise the premium so much because they knew we were producing a product and not actually in the business of buying insurance, and it went to where we had to go every year almost and threaten to take our work, policy elsewhere.

But one year they came to me and said, because it was my job to negotiate with the insurance company, they came to me and said, you have one employee who has had two radical mastectomies; and if you exclude that employee, we can give you a lot better rate. And I said, you don't understand. That employee is the wife of the owner, and it is a family company, and I will tell him you suggested that. They actually pulled it off the table.

But, you know, that is what employers, small businesses see every day, the choice of either cutting employees or cutting your health care. And that is why what Congress is trying to do is so important, to put small business on a level playing field so they can bargain with insurance companies on some type of even field.

And so, Mr. Chairman, thank you for calling this hearing. Hopefully, it will point up the need that we have for some kind of national health care exchange for small businesses to participate in. I know in Texas we tried to do that, with very limited success.

But, again, thank you, Mr. Chairman. I look forward to the testimony.

[The prepared statement of Mr. Green follows:]

**Statement of Rep. Gene Green  
O&I Subcommittee Hearing  
The High Cost of Small Business Health Insurance: Limited Options, Limited  
Coverage  
10/20/09**

Mr. Chairman, I want to thank you for holding this hearing today on the difficulties small businesses face when offering health insurance to their employees.

Most individuals would like to receive their health insurance coverage though their employer and many businesses offer health insurance to remain competitive in the market when hiring individuals.

However, when it comes to purchasing health insurance, small businesses face costs nearly 18% higher than larger companies because their risk pool is much smaller.

Small businesses also face premium increases into the double digits when an employee become ill and actually uses their insurance.

This makes purchasing and keeping health insurance extremely difficult for small businesses. Consequently, small business employees are nearly three times as likely to be uninsured as their counterparts are large firms.

In these tough economic times small businesses often have to decide between laying off individuals or continuing to provide health insurance. As a result, fewer and fewer small businesses are choosing to offer insurance to their employees. And those that do offer coverage tend to have less generous policies and are less likely to offer a choice of plans.

This is why we need a national health insurance exchange such as the one proposed in H.R. 3200, America's Affordable Health Care Choices Act.

A national exchange will give small businesses the benefits of large group rates normally enjoyed only by large employers, lower administrative costs, greater transparency, and the ability to offer greater choice of plans to their employees.

Under H.R. 3200 businesses and employers will be required to either provide insurance to their employees or they can pay an 8% payroll tax penalty. Those individuals whose employers pay an 8% payroll tax will be eligible to purchase insurance through the exchange and may qualify for affordability credits.

Small businesses with a payroll under \$500,000 will be exempt from the payroll tax penalty and their employees will also be eligible to purchase insurance through the exchange and may qualify for affordability credits, which are for families and individuals under 400% of the poverty level.

These are the type of reforms we need to ensure small business will be able to offer quality health care coverage to their employees at a cost that is affordable to them.

I want to thank our witnesses for appearing before the committee today and thank you Mr. Chairman.

I yield back my time.

Mr. STUPAK. Thank you, Mr. Green.  
Ms. Schakowsky for an opening statement, please.

**OPENING STATEMENT OF HON. JANICE D. SCHAKOWSKY, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLI-  
NOIS**

Ms. SCHAKOWSKY. Thank you very much, Mr. Chairman, for holding this hearing that focuses on the problems of small business owners and their employees.

Virtually every business and every household in our country is struggling to cope with rising health care costs. It is really Code Red for small businesses.

The Main Street Alliance describes it this way: Quote: Every day small businesses are being forced to drop health coverage, lay off employees, or shut their doors for good because of the rising costs of health care.

Small businesses can't afford the cost of doing nothing on health care. We can't afford to see insurance costs continue to skyrocket with no bargaining power to keep the insurance companies in check. We can't afford to pay more for less coverage, including twice as much in administrative costs as larger groups, with no real alternatives. We can't afford to keep absorbing huge rate hikes in this system that gives insurers free rein to discriminate based upon our employees' health status and gender.

You heard about health status. I hope to ask some questions about gender. This is a critical condition confronting many of my constituents, people like Marie, who owns a candy store in Wilmette. After she and her husband were denied coverage, they were finally able to find a policy but one that requires them to pay \$1,700 each month in premium and out-of-pocket costs. And how many small business entrepreneurs can afford that, particularly in today's economy?

Or Jim Kelly of Glenview, Illinois, who works for a small business that can't afford to provide coverage to its workers. Jim and his wife are forced to take, in his words, a risk. We are paying cash for our medication and hoping that nothing major happens until we are eligible for Medicare.

Americans shouldn't be asked to gamble with their lives. It is time for solutions. I hope that we will hear today the changes that are essential to keep small business economically strong and small business employees healthy, and I think this hearing and action on health care reform couldn't be more timely.

Thank you, Mr. Chairman.

Mr. STUPAK. Thank you, Ms. Schakowsky.

That includes the opening statements by members of the subcommittee.

We have our first panel of witnesses before us.

Our first witness, Mr. Landauer, comes from Iowa and is a constituent of Mr. Braley. Mr. Braley is Vice Chair of this subcommittee, so I am going to ask him to take a moment and introduce Mr. Landauer.

Mr. BRALEY. Thank you, Mr. Chairman.

I am proud to introduce Mick Landauer, a constituent of mine and the owner of Bi-State Muffler & Brake, Inc., in Davenport, Iowa.

Mick showed up at one of my very first town hall meetings on health care in July in the Quad Cities and has been working with my office all year on important health care issues, particularly the challenges of providing affordable health care coverage for his employees. I want to thank Mick for helping me on this critical issue and for being here to share his story with the subcommittee.

Mr. STUPAK. Thank you.

And Mr. Bruce Hetrick is with us. He is a small business owner from Indianapolis, Indiana. And thanks for being here. I know it was difficult. And sorry about the loss of your wife. But it is a story I think we all need to know, because I think small businesses face it every day. So thank you for being here.

Mr. Fred Walker is a small business owner from St. Petersburg, Florida. I know the economy is not the best down there, so I am sure you can give us some insight not just on health care but also on economic and what it is doing to your business line on health insurance.

And Dr. Linda Blumberg, who is a Senior Fellow at the Urban Institute, expert on small business and insurance; and we look forward to your testimony.

It is the policy of this subcommittee to take all testimony under oath. Please be advised that you have the right under the rules of the House to be advised by counsel during your testimony. Do you wish to be represented by counsel?

Everyone is shaking a their head no, so I will take that as a no answer. Therefore, I am going to ask you to please raise and raise your right hand and take the oath.

[Witnesses sworn.]

Mr. STUPAK. Let the record reflect that all witnesses answered in the affirmative. They are now under oath.

We will hear from you with an opening statement 5 minutes long. If you have a longer statement, we will include it; and it will be made part of the record.

Mr. Landauer, if you don't mind, we will start with you. We will go from my left and go right across. You might want to turn that on, Mr. Landauer. A green light should go on. There we go. Go ahead.

**STATEMENTS OF NORMAN MICHAEL LANDAUER, BI-STATE MUFFLER & BRAKE INC., DAVENPORT, IOWA; BRUCE HETRICK, HETRICK COMMUNICATIONS, INDIANAPOLIS, INDIANA; FRED WALKER, ST. PETERSBURG GLASS AND MIRROR, ST. PETERSBURG, FLORIDA; AND LINDA J. BLUMBERG, URBAN INSTITUTE**

**STATEMENT OF NORMAN MICHAEL LANDAUER**

Mr. LANDAUER. Thank you, Mr. Chairman, and to all honorable members of the congressional subcommittee. I am here today to give just one story on the high cost of small business health insurance.

I do own my own business. I have owned the company for over 30 years, and one of the perks we offer at the company is a group health insurance policy for the employees who desire coverage. The cost is split on a 50–50 basis, and these costs keep rising.

In 2006, our company paid \$17,500 for health insurance. That was about 2 percent of the business costs. In 2007, the health insurance costs rose to \$22,000. That was 2.4 percent of our costs. In 2008, health insurance rose to \$25,500; and, again, our costs of it rose also. In 2009, health insurance through September has cost \$21,660, which comes out to about \$29,000 for the year, and is up to 3 percent of our expenses.

The rates per employee have been climbing tremendously. In order to keep them down, our deductible is rising instead. Our monthly premiums now are around \$400 for a single individual and around \$850 on the family plan. The deductible is at \$8,000 for an individual policy and \$16,000 for the family plan. The muffler shop pays for half the deductibles in 2009.

Last year, we had deductibles of \$4,000 for an individual and \$8,000 for a family plan, with monthly rates that were quite a bit lower. Two years ago, the deductibles were \$2,000 for an individual and \$4,000 for the monthly plan. The monthly rates again were lower yet. At our next signing period, I expect the deductibles to double once again, with the monthly rates to go up by \$50 to \$100.

How can this be? It is because one of our policyholders was born with congenital heart disease. He visits a specialist twice a year. A routine visit costs anywhere from \$1,200 to \$1,500. Any specialized tests that may be done can run \$10,000 or more. And that employee is me.

The only way I see to keep both monthly rates and deductibles reasonable is by taking myself off our group policy. I will not be able to get health insurance, individual or otherwise, as I have turned down our company's group plan that is available to me.

So I ask you, what options do I have? Pay for my own medical costs, in which case I would be forced to sell the business? Quit going to doctors, including my congenital heart specialist, even though I now have a pacemaker? Or how about moving to Canada, which has a national health care plan? But yet again, I would be forced to sell my own business.

To me, owning your own business is the American dream, a dream that now seems to be only that, a dream. I turned 53 last Thursday and am beginning to wonder how it could all go wrong. Is it punishment for not being the typical person?

I employ 11 people at the muffler shop, including myself, and do feel successful in the business world. I am a member of our local temple. I am a member of two nonprofit organizations. But I have learned anything can change in an instant.

Anyway, I would like to personally thank you for letting me have my time at the hearing. I know that our health insurance landscape does need a change. I know that is an issue with all Americans, as it does affect each and every one of us. I do understand there are as many reasons for a change in our health insurance system as there are against that change, and I see there is no right or wrong answer to the question of health insurance.



As for me, I am for a change in the way that health insurance policies can be written. Whether we make them national in scope or even let the government offer their own policy, I feel it is time for a change. Health insurance is not just a purchased item, as is car insurance, but rather a part of America that does affect all Americans.

I know you have a difficult task ahead of you, and I wish you all the best in trying to solve America's health care dilemma. I wish you the best of luck in the decisions you are going to make that will not only impact me but the rest of America as well. Each and every one of us are going to be affected by your decisions.

Once again, thank you for letting me testify before you today. It has been my utmost honor to have the privilege of speaking before you and trying to give a voice for many other people besides myself.

[The prepared statement of Mr. Landauer follows:]

**Statement of Mick Landauer**

To All Honorable Members on the Subcommittee on Oversight and Investigations, I am here today to give but one story on the high cost of small business health insurance.

I do own my own business. I have been an owner of the company for over thirty years. One of the perks I offer at the company is a group health insurance policy for those employees who desire coverage. The cost is split on a 50-50 basis. And those costs keep rising.

In 2006 our health insurance costs were \$17,500. That was about 2% of our business costs. In 2007 our health insurance costs rose to \$22,000. That was at 2.4% of our costs. In 2008 health insurance rose to \$25,500. That came to around 2.7% of our costs. In 2009 our health insurance through September has cost \$21,660, which comes to \$29,000 for the year. It is now 3% of our costs.

The rates per employee have been rising tremendously. In order to keep them down, our deductible has been rising instead. Our monthly premiums are now around \$400 for an individual and \$800 for a family plan. The deductible is at \$8,000 for an individual policy and \$16,000 for a family plan. The muffler shop pays for half of the deductible with the plan we have now.

Last year we had deductibles of \$4,000 for an individual and \$8,000 for a family plan. Two years ago the deductible was at \$2,000 for an individual and \$4,000 for a family plan. And you can see our monthly rates in the previous years were lower also. At the shops next sign-up period for health insurance, I expect the deductibles to double once again with the monthly rates going up by 50-100 dollars.

How can this be you may ask? It is because one employee was born with congenital heart disease. He visits a specialist twice a year. A routine visit may cost from \$1,200 to \$1,500. Any specialized tests will run \$10,000 and up. The employee with the heart condition, that is myself.

The only way I see to keep our monthly rates and deductibles reasonable is by removing myself from the company policy. I will not be able to get health insurance anywhere else as I turned down our companies group plan that was available to me. So I ask you, what options do I have?

Pay for my own medical costs in which case I would be forced to sell the business? Quit going to doctors, including the Congenital Heart Specialist? Or maybe move to Canada, which has a national health care plan, and ultimately being forced to sell my business?

To me, owning your own business is the American Dream. A dream that unfortunately now seems to be just that, a dream and not a reality. I turned fifty-three last Thursday and am beginning to wonder how it could all go so wrong?

I employ eleven people, including myself, and used to feel very successful in the business community. I am a member of our local church. I am also a member of two non-profit

organizations, the American Heart Association and the Children's Heart Foundation. I am on the national board with the Children's Heart Foundation besides forming a local chapter. But I've learned that that it could all change in an instant.

Anyway, I would like to personally thank you for letting me have my time at the hearing. I know that our health insurance landscape needs a change. I know that it is an issue with all Americans as it does affect each and every one of us. I do understand that there are as many reasons for a change in our health care system as there are against it. And I see that there is no right or wrong answer on the question of health care. As for me, I am for a change in the way health insurance policies can be written. Whether we make them available nationwide, or let the government offer their own policy, I feel it is time for a change. Health insurance is not just a purchased item as is car insurance, but rather a part of America that affects all Americans.

I know that you have a difficult task ahead of you and I wish you the best in trying to solve America's Healthcare Dilemma. I wish you the best of luck in the decisions you are going to make that will not only impact me, but the rest of America as well. Each and everyone one of us will be affected by your decisions.

Once again, thank you for letting me testify today before you. It has been my utmost honor to have the privilege of speaking before you and try to give a voice for others besides myself.

Mr. STUPAK. Thank you, Mr. Landauer.  
Mr. Hetrick, your opening statement, please.

#### STATEMENT OF BRUCE HETRICK

Mr. HETRICK. Mr. Chairman and members of the committee, thank you for the opportunity to talk with you about the impact of health insurance on small business.

My take on our health system comes from three perspectives.

First, you need to know that I am a hearing-impaired, migraine-suffering, diabetic cancer survivor who is also the father of a cancer survivor and the widower of a cancer victim. So I have experienced more than my fair share of the American health care system.

Second, as a professional communicator with a passion for human services, I have spent decades working for health educators, nurses, doctors, hospitals, health advocates, and the people who pay for all of the above.

Third, I have been a small business owner for 16 years. In that role, my colleagues and I have evaluated, purchased, and paid for health insurance for our employees and our families.

Despite my and my family's health problems, I consider myself lucky. I have had health coverage for myself, my spouse, and my twin sons throughout my 30-year career. For the most part, the policies have covered what they promised to cover, little haggling required. When the need was greatest, during my late wife's cancer battle, our insurance company, Anthem Blue Cross/Blue Shield sped approvals and denied not a single claim. I am very grateful for that.

On the other hand, I have some frustrations.

First, health care and health coverage inflation is small-business enemy number one. My company pays 80 percent of the employee premiums and 50 percent of dependent premiums. That is higher than typical for firms like ours, but it helps us to attract and retain good people. It also leaves us with a painful choice. Either the cost of health coverage cuts into our profits or, if we pass it onto our customers, it renders us less competitive.

Another concern is health insurance rate inequities. If you are a big business, you get pricing based on giant risk pools. I mean if you are a small company like mine, one staff health crisis can send your rates skyrocketing.

Let me give you one example. My late wife, Pamela Klein, was also my business partner. As such, she was covered by our company's health plan.

In the last year of her life, the billed charges for Pam's cancer care totaled \$300,000. A few months before her death, our health insurance renewal came up. Lo and behold, the quoted increase for the health insurance portion of our benefits plan was a whopping 28 percent. That would have been devastating to our company and our employees.

When Pam died just short of the actual renewal date, I had our rates quoted. With Pam out of the mix, the increase for the very same health coverage was just 10 percent. A 28 percent increase reduced to 10 percent because of one person who needed the care that we had paid for.

One additional concern I will share with the committee involves taxes and economic development. Because I own more than 2 percent of an S corporation, my benefits are fully taxed income. My employees' health insurance is a pretax company expense. Mine is fully taxed as personal income. In addition, my employees enjoy pretax spending accounts for their out-of-pocket medical expenses. I am the only person in the company who cannot participate. In this country where most jobs are created by small business, that is a very powerful incentive to do just the opposite.

Because we are so overly dependent on employment-based health insurance in this country and because we have allowed the denial of coverage to those with major maladies and pre-existing conditions, we have created an enormous chasm between haves and have-nots. One lost job, paired with one serious or chronic ailment, and you are a fiscal goner.

As Pam and I sat in renowned cancer centers in Indianapolis and Houston, getting pricey chemotherapy and sophisticated scans, we were grateful for the caregivers, the coverage, the clinical trials, and the chance at survival. But we also felt guilty that we were getting this because we had money, connections, and jobs. Yet all the while, here in the greatest Nation on earth, others facing the same predicaments, citizens with the same right to life and health, were growing sick and dying with no chance whatsoever. Sadly, 5 years after Pam's death, more uninsured Americans than ever still are.

My point today is simple. We need health coverage for all. We need it now. But if Congress is going to settle on an employer-based system, then our small businesses need rates and risk pools and tax policies that make the provision of health insurance competitive and affordable. We need incentives to create and sustain jobs, not incentives to lay people off, close up shop, and go to work for large organizations with benefits that we can't compete with.

Thank you very much.

[The prepared statement of Mr. Hetrick follows:]

Statement of Bruce K. Hetrick  
Chairman and CEO, Hetrick Communications  
Indianapolis, Indiana

United States House of Representatives Committee on Energy and Commerce  
Subcommittee on Oversight and Investigations

October 20, 2009

Mr. Chairman and members of the committee. Thank you for the opportunity to talk with you about the impact of health insurance costs on small business.

My take on our health system comes from three perspectives.

First, you should know that I'm a hearing-impaired, migraine-suffering, diabetic cancer survivor who's also the father of a cancer survivor and the widower of a cancer victim. So I've experienced more than my fair share of American health care.

Second, as a professional communicator with a passion for human services, I've spent decades working for health educators, nurses, doctors, hospitals, health advocates and the people who fund all the above.

Third, I've been a small-business owner for 16 years. In that role, my colleagues and I have evaluated, purchased, and paid for health insurance for our employees and our families.

Despite my and my family's health problems, I consider myself lucky. I've had health coverage for myself, my spouse and my twin sons throughout my 30-year career. For the most part, the policies have covered what they promised to cover, little haggling required. When the need was greatest (during my late wife's cancer battle), our insurance company—Anthem Blue Cross/Blue Shield—sped approvals and denied not a single claim. I'm grateful for that.

On the other hand, I have frustrations.

First, health-care and health-coverage inflation is small-business enemy #1. My company pays 80 percent of employee premiums and 50 percent of dependent premiums. That's higher than typical for firms like ours, but it helps us attract and retain good people. It also leaves us with a painful choice: Either the cost of health coverage cuts into our profits or, if we pass it along to our customers, it renders us less competitive.

Another concern is health insurance rate inequities. If you're a big business, you get pricing based on giant risk pools. But if you're in a small company like mine, one staff health crisis can send your rates skyrocketing.

Let me give you one example: My late wife, Pamela Klein, was also my business partner. As such, she was covered by our company's health insurance.

In the last year of her life, the billed charges for Pam's cancer care totaled \$300,000. A few months before her death, our health insurance renewal came up. Lo and behold, the quoted increase for the health insurance portion of our benefits plan was a whopping 28 percent. That would have been devastating to our business and our employees.

When Pam died just shy of the actual renewal date, I had our rates re-quoted. With Pam out of the mix, the increase for the very same health insurance coverage was just 10 percent—a 28-percent increase reduced to 10 percent because of one person in need of care.

One additional concern I'd share with the committee involves taxes and economic development. Because I own more than 2 percent of my company, my benefits are fully taxable as income. My employees' health insurance is a pretax company expense. Mine is fully taxed as personal income. In addition, my employees enjoy pretax spending accounts for their out-of-pocket medical costs. As a business owner, I'm not allowed to participate. In a country where most new jobs are created by small businesses, that's a powerful disincentive to do just the opposite.

Because we're overly dependent on employment-based health insurance in this country; and because we've allowed the denial of coverage to those with major maladies and pre-existing conditions; we've created an enormous chasm between haves and have nots. One lost job paired with one serious or chronic ailment and you're a fiscal goner.



As Pam and I sat in renowned cancer centers in Indianapolis and Houston, getting pricey chemotherapy and sophisticated scans, we were grateful for the caregivers, the coverage, the clinical trials, the mere chance at survival.

But we also felt guilty—that we were getting all this because we had money, connections and jobs. Yet all the while, here in the greatest nation on earth, others facing the same predicament—citizens with the same right to life and health—were growing sick and dying with no chance whatsoever. Sadly, five years after Pam’s death, more uninsured Americans than ever still are.

My point today is simple: We need health coverage for all. We need it now. But if Congress is going to settle on an employer-based system, then our small businesses need rates, risk pools and tax policies that make the provision of health insurance competitive and affordable. We need incentives to create and sustain jobs—not incentives to lay people off, close up shop, and go to work for large organizations with benefits we can’t afford to match.

Mr. STUPAK. Thank you, Mr. Hetrick.  
Mr. Walker, your statement, please.

**STATEMENT OF FRED WALKER**

Mr. WALKER. Good afternoon, Mr. Chairman and Members. Thank you for having me.

My name is Fred Walker. I am the owner and operator of St. Petersburg Glass and Mirror in St. Petersburg, Florida. We fabricate and install flat glass and aluminum products for the construction, remodeling, and emergency recovery industries.

I founded the company in 1993 with two credit cards and some financial support from my family and a whole lot of help from my wife. Sixteen years later, I feel lucky to be a survivor of the current economic disaster in our community.

From day one I felt that each employee should have an option to be included in a health insurance plan. Over the years we learned that the plans are many. You have to shop for a new one every year in order to help avoid escalating costs, pre-existing conditions are never covered, and each employee is a unique case. As the costs have risen, the financial burden that our company can bear has been reduced. We currently pay 50 percent of our policy for each employee. Percentages have changed as the policies and the premiums have risen.

I am here today because the economic downturn has had an effect on my business and, consequently, my ability to provide health care programs for my employees. 2007 and 2008 were boom years for St. Pete glass and mirror. The housing boom was followed by a commercial building boom. I had 10 glazers on staff, an assistant manager, and a secretary. Every day was busy, and we sometimes had more work than we could handle.

By late 2008, things started slowing down; and I saw the decline coming. I started laying off workers that September; and by February, 2009, it looked like I might have to drop our health insurance program altogether.

I mentioned that one day to my secretary, Mindy; and she immediately made an appointment to have a breast exam. The checkup she had been avoiding was breast cancer. I made the decision to keep our health insurance program even though the business continued to collapse. Mindy went into treatment and has fared well. However, our options are now very limited, and she has recently been refused a quote because of pre-existing conditions until she is cancer free for 10 years.

Please also note that I had a sudden bout of seizures from May, 2008, to November, 2008, which included several days in the hospital; and our recent quote did not exclude me. Apparently, I am a lower risk.

We have operated since June with a staff of four, myself, Mindy and two glazers. Everyone takes voluntary time off when there is no work. Gross income is roughly one-third of what it should be with a workforce that size. Mindy's treatment is over for now; and if she can find another option, I will go on my wife's policy soon. Rebuilding the company appears to be months or maybe years away.

I thought it was my duty to ask friends, family, and mentors their opinions on this issue as I represent them as well. I will paraphrase some of their responses.

Jack Grayson, owner of Seminole Realty, my cousin, had a 13-year battle with his departed wife, Peggy. She had cancer; and I quote, "The last few years, our copays and medication were \$3,000 to \$4,000 a month, and we had good insurance. What do the less fortunate people do?" Peggy passed on in 2000. Jack says we have to help those who can't afford the proper care.

John Wallace, a general contractor who is my best customer, says the bill passed in the Senate last week requiring businesses to provide health insurance will crush small business.

Lance of Lance's Moving Company, a customer, walked in off the street last week and we were talking about it. Lance related a story that his wife had kissed their grandson on the eye when he was a baby. She had a cold sore and accidentally gave him herpes simplex in his eye. There is no medical insurance available because of the pre-existing condition. Lance has spent his life savings and is out of options. The boy is 6 years old.

Most of us use chiropractors, dentists, optometrists, and counselors, as well as medical doctors. These people are as educated and vital to our welfare as doctors but not covered under most medical plans.

A friend related a story about a local anesthesiologist who specializes in cardio-pediatric care. His clinic had liability insurance. The hospital he worked out of had liability insurance, but his annual premium for his personal liability was \$250,000 per year. That is triple liability insurance, and where is our money going?

Finally, my wife, Jane Walker, director of Daystar Life Center in St. Petersburg, who takes care of the least fortunate of us every day, says there are many people who choose between food, medication, and health care for their loved ones every day.

Something has to be done. We live in the greatest nation in the world, have the resources. This is an issue about people, not politics. Not money, but people.

Finally, I did find somebody who was happy with their health care. Pete and Pat Lamb are dear family friends, and they are both over 70 years old. Their combination of Medicare and coinsurance has provided for them well. Perhaps that is a starting point.

Thank you.

[The prepared statement of Mr. Walker follows:]

**1. INTRODUCTION:**

Good afternoon. My name is Fred Walker. I am the owner and operator of St. Petersburg Glass and Mirror in St. Petersburg, Florida. We fabricate and install flat glass and aluminum products for the construction, remodeling and emergency recovery industries.

**2. HISTORY:**

I founded the company in 1993 with 2 credit cards, some financial support from family and a lot of help from my wife. Sixteen years later I feel lucky to be a survivor of the current economic disaster in our community.

**3. HEALTH PLANS AND MY BUSINESS:**

From day one I felt that each employee should have the option to be included in a health insurance plan. Over the years we learned the plans are many. You have to shop for a new one every year to help avoid escalating costs, pre-existing conditions are never covered and each employee is a unique case. As the cost has risen the financial burden our company can bear has been reduced. We currently pay 50% of our policy for each employee. Percentages have changed as the policies and premiums have risen.

**4. ECONOMIC DOWNTURN AND MINDY'S STORY:**

I am here today because of the effect the economic downturn has had on my business and consequently my ability to provide a healthcare program for my employees. 2007 and early 2008 were boom years for St. Petersburg Glass and Mirror. The housing boom was followed by a commercial building boom. I had 10 glaziers on staff, an assistant manager and a secretary. Every day was busy and we sometimes had more work than we could handle. By late summer 2008 work

started slowing down and I saw the economic decline coming. I started laying off workers that September and by February 2009 it looked like I might have to drop our health insurance program. I mentioned that one day to my secretary, Mindy, and she immediately made an appointment to have a breast exam. The check up she had been avoiding was breast cancer. I made decision to keep our health insurance program even though business continued to collapse. Mindy went into treatment and has faired well. However, our options are limited now as she has been refused a quote because of pre-existing conditions until cancer free for 10 years. Please also note that I had a sudden bout of seizures from May 2008 to November 2008 which included several days in the hospital and our recent quote did not exclude me. Apparently I am a lower risk.

#### **5. FUTURE ST. PETERSBURG GLASS AND MIRROR HEALTH PLANS:**

We have been operating since June with a staff of four. Myself, Mindy in the office and two glaziers. Everyone takes voluntary time off when there is no work. Gross income is roughly one third of what it should be with a workforce that size. Mindy's treatment is over for now and IF she can find another option I will go on my wife's policy soon. Re-building the company appears to be months or even years away.

#### **6. INPUT FROM OTHERS:**

I thought it my duty to ask friends, family and mentors their opinion on this issue as I represent them, as well. I have paraphrased some of their responses:

Jim Maxheimer – Retired Accountant - U.S. government should butt out.  
Whatever they pass will be written in detail by somebody else – basic flaw in the system.

Harry Green – Retired, – Mensa genius- "It's too late. Total collapse is imminent.

John Wallace – General Contractor – Wallace and Associates, “the bill passed in the Senate last week requiring businesses to provide health insurance will crush small business.”

Jack Grayson – Owner of Seminole Realty and my cousin who looks after me like a brother told an unheard story about the 13 year battle his departed wife, Peggy had with cancer. And I quote “The last few years our co-pays were 3-4 thousand dollars a month and we had good insurance! What do the less fortunate do?” Peggy passed in 2000. Jack says we have to help those who can’t afford the proper care.

Lance – Lance’s Moving Company – Customer - Lance related the story that his wife had kissed their grandson on the eye when he was a baby. She had a cold sore and accidentally gave him herpes simplex in his eye. There is no medical insurance available because of the pre-existing conditions. Lance has spent his life savings and is out of options. The boy is six years old.

Bob Howes – My friend and keyboard player- delivers car paint two days a week and plays music for money as much as he can to survive. Bob has an ongoing battle with skin cancer and has run out of options for treatment. He has conceded death within a few years.

Bill Walker – my cousin who is an RN and sells pacemakers for St. Jude medical CRMD division. Bill travels a lot and likes the French and the Canadian systems.

Most of my middle aged, right wing buddies who live week to week and could never afford health insurance. Their clock is ticking and they don’t have a plan.

Almost all of my friends who own small businesses have suspended holiday and vacation pay as well as any health benefits because of the economic downturn.

Most of us use chiropractors, dentists, optomologists and counselors as well as medical doctors. These people are as educated and vital to our welfare as doctors but not covered under most medical plans.

A friend related a story about a local anesthesiologist who specializes in cardio-pediatric care. His clinic had liability insurance, the hospital he worked out of had liability insurance, but his annual premium for personal liability is \$250,000 per year. That is triple liability insurance.

Finally, my wife, Jane Walker, Director of Daystar Life Center in St. Petersburg who takes care of the least fortunate of us every day. "There are many people who choose between food, medication and healthcare for their loved ones every day. Something has to be done. We live in the greatest nation in the world and have the resources. This is an issue about people – not politics – not money – People!"

## **7. SOLUTIONS:**

I would like to note that while polling my friends and family on October 15 I finally found somebody who was very happy with their healthcare. Pete and Pat Lamb are dear family friends and over 70 years old. Their combination of Medicare and co-insurance has provided well for them. Perhaps a starting point?

Mr. STUPAK. Thank you, Mr. Walker.  
Dr. Blumberg, your testimony please.

**STATEMENT OF LINDA J. BLUMBERG**

Ms. BLUMBERG. Mr. Chairman and distinguished members of the committee, thank you for inviting me here today to share my views on the health insurance challenges facing small businesses and their workers. While I am an employee of the Urban Institute, this testimony reflects my views alone and should not be attributed to the Urban Institute, its trustees, or its funders.

Small employers are at a significant disadvantage as purchasers of health insurance relative to large employers. The consequences are clear and consistent over time. Small employers are much less likely to offer health insurance coverage to their workers, and workers in small firms are much more likely to be uninsured. The barriers that small employers face in insurance purchasing come on multiple fronts; and as premiums continue to grow faster than wages, the declines in small employer-based coverage outpace the declines among large employers. Without significant reforms to how small group health insurance markets function and to the insurance options that are available to those without employer offers of insurance coverage, there should be no expectation that these negative trends will abate.

In 2008, only 36 percent of employers with fewer than 10 workers offered insurance to their workers, compared with 99 percent of employers with a thousand or more workers. Plus, declines in employer offers over time have been greatest among small employers.

The employer size differences are most dramatic when looking at employers with a low-wage workforce. Among employers for which at least half of their workers were low wage, only 18 percent of the smallest employers offered health insurance coverage in 2008 compared with 98 percent of the largest employers.

Between 2000 and 2008, the share of low-wage employers offering coverage to their workers fell almost 28 percent for employers with fewer than 10 workers but held steady for the largest low-wage employers. So the differential in offer rates between small and large employers is large and growing even larger, and the situation for low-wage firms and their workers is particularly severe.

Differences in employer offer rates and take-up translate directly into differences in insurance coverage for workers. Fully one-third of workers employed in firms of fewer than 25 were uninsured in 2008, compared with 13 percent of those employed by firms of a thousand or more. Smaller firms faced much larger administrative costs per unit of health benefit purchased. Administrative economies of scale occur because the cost of enrollment and other activities by plans are largely fixed, and insurers have fewer workers over which to spread these costs in small firms. In addition, small employers experience greater year-to-year variability in medical expenses than do large firms because there are fewer workers over which to spread the risk. Insurers charge small employers higher premiums as a result.

Many States allow commercial insurers to adjust small employer premiums based on the health status and claims experience of



their workers. Almost all States allow significant variations in premium rates as a function of the age of the workers, and many also allow adjustments based on the industry of the employer. These rating practices create additional difficulties for many small employers to obtain affordable coverage for their workers.

Another barrier to small employers providing health insurance is that the typical worker in a small firm is paid significantly less than workers in large firms. The lower wages of small firm workers imply that they are less able to pay for health insurance through wage reductions. Consequently, their employers are less likely to offer such benefits.

Workers in small firms that do not offer health insurance are often left with few options for insurance coverage. In the vast majority of States, there is no guarantee that an individual can purchase health insurance in the individual market; and even if nongroup coverage is available, coverage is frequently limited such that it may not be adequate to provide these workers with affordable access to necessary medical care.

A number of provisions in H.R. 3200 would provide significant assistance for small employers and their workers. The most important of these, in my opinion, are the establishment of a national health insurance exchange, along with significant reforms to insurance market rules, and the provision of subsidies to assist the low-income population purchase health insurance coverage through the exchange.

Not only would workers in small firms have a choice of insurance plan within the exchange, a situation extremely unusual today, but those that have been priced out of the market due to health issues or an older workforce may have affordable access to coverage for the first time.

In addition, all small groups would see a significant decrease in the year-to-year variability of premiums due to greater sharing of health risks. In addition, small employers can expect administrative savings from purchasing coverage through the exchange. Churning across policies and insurance-related job loss should be reduced significantly.

Finally, with the insurance reforms in the exchange alone, small firm workers would still be more likely to be uninsured than large firm workers because they tend to be lower income. As a consequence, the financial assistance and purchasing exchange based coverage and the expansion of eligibility for the Medicaid program that H.R. 3200 would provide are critical elements to expanding coverage for low-wage workers and their families. In these ways, the proposed legislation would make adequate and affordable coverage available to many more workers of small employers than is the case today.

Thank you very much.

[The prepared statement of Ms. Blumberg follows:]

**Statement of**

**Linda J. Blumberg, Ph.D.**

**Senior Fellow  
The Urban Institute**

**Committee on Energy and Commerce  
Subcommittee on Oversight and Investigations  
United States House of Representatives**

**Hearing:  
The High Cost of Small Business Health Insurance:  
Limited Options, Limited Coverage**

**October 20, 2009**

Mr. Chairman and distinguished Members of the Committee:

Thank you for inviting me to share my views on the health insurance challenges facing small businesses and their workers. While I am an employee of the Urban Institute, this testimony reflects my views alone and should not be attributed to the Urban Institute, its trustees, or its funders.

Small employers are at a significant disadvantage as purchasers of health insurance relative to large employers. The consequences are clear and consistent over time: small employers are much less likely to offer health insurance coverage to their workers and workers in small firms are more likely to be uninsured. The barriers that small employers face in insurance purchasing come on multiple fronts and, as premiums continue to grow faster than wages, the declines in small employer-based coverage outpace the declines among larger employers. Without significant reforms to how small group health insurance markets function and to health insurance options that are available to those without employer offers of coverage, there should be no expectation that these negative trends will be reversed.

**Rate of Employer Offers of Coverage.** As table 1 shows, the share of employers offering health insurance varies considerably by employer size. In 2008 (the most recent data available from the Medical Expenditure Panel Survey – Insurance Component, MEPS-IC), only 35.6 percent of employers with fewer than 10 workers offered insurance to their workers, compared with 98.9 percent of employers with 1,000 or more workers.

In addition, declines in employer offers over time have been greatest among the small employers. Between 2000 and 2008, the share of employers with 100 or more workers offering coverage to their workers has remained essentially steady, whereas the share of employers with fewer than 100 workers offering coverage has fallen, with the smallest employers experiencing the largest relative declines. Employers with fewer than 10 workers were 10.1 percent less likely to offer coverage in 2008 compared to 2000, and those with 10 to 99 workers were roughly 4 percent less likely to offer coverage in 2008 than they were in 2000.

The employer size differences in the likelihood of offering coverage are even more dramatic when examining employers with a low-wage workforce separately from those with a higher-wage workforce. Among employers for which at least half of their workers were low wage,<sup>1</sup> only 18.4 percent of the smallest employers offered health insurance coverage in 2008, compared with 98.0 percent of the largest employers according to the MEPS-IC. Between 2000 and 2008, the share of low-wage employers offering coverage to their workers fell almost 28 percent for employers with fewer than 10 workers, 21 percent for employers with 10 to 24 workers, and 18 percent for employers with 25 to 99 workers, but held steady for the largest employers. Those small employers for whom a majority of workers were not low wage experienced significant declines over this time as well, but the declines were not as large as for low-wage employers (12.4 percent for the employers of fewer than 10 workers, 5 percent for those with 10 to 24 workers). So the differential in offer rates between small and large employers is large and growing even larger, and the situation for low-wage firms and their workers is particularly severe.

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<sup>1</sup> Here low wage means at or below the 25th percentile for all hourly wages.

**Rate of Take-Up of Employer Coverage, Given an Offer.** Workers in the smallest firms are also less likely than their large-firm counterparts to take up employer offers when they have one, although some of these workers receive coverage through a spouse employed by a larger firm.<sup>2</sup>

**Rate of Uninsurance.** These differences in employer offer rates and take-up translate directly into differences in insurance coverage rates for workers employed by small versus large firms. According to the Census Bureau's March Supplement to the Current Population Survey (the Annual Social and Economic Supplement)<sup>3</sup> fully one-third of workers employed in firms of fewer than 25 workers were uninsured in 2008, compared with 13.5 percent of those employed by firms of 1,000 or more workers (see table 2).

**Barriers to Small-Group Coverage.** The lower insurance offer rates among small employers are due, at least in part, to the fact that small employers must pay significantly more for the same health benefits than large employers. Smaller firms face much larger administrative costs per unit of benefit.<sup>4</sup> Administrative economies of scale occur because the costs of enrollment and other activities by plans and providers are largely fixed costs.<sup>5</sup> Insurers simply have fewer workers over which to spread these fixed costs

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<sup>2</sup> L. Clemans-Cope and B. Garrett. 2006. "Changes in Employer-Sponsored Health Insurance Sponsorship, Eligibility, and Participation: 2001 to 2005," report to the Kaiser Commission on Medicaid and the Uninsured, <http://www.kff.org/uninsured/upload/7599.pdf>

<sup>3</sup> The Henry J. Kaiser Family Foundation. 2009. "The Uninsured: A Primer," Supplemental Data Tables, available at <http://www.kff.org/uninsured/7451.cfm>.

<sup>4</sup> Congressional Research Service. 1988. *Costs and Effects of Extending Health Insurance Coverage*. Washington, DC: U.S. Government Printing Office.

<sup>5</sup> L. J. Blumberg and L. M. Nichols. 2004. "Why Are So Many Americans Uninsured?" *Health Policy and the Uninsured*, Catherine G. McLaughlin, ed. Washington, DC: Urban Institute Press.

in small firms. In addition, insurers charge higher premiums to small employers, because small employers experience greater year-to-year variability in medical expenses than do large firms<sup>6</sup> simply because there are fewer workers over which to spread risk.

Many states allow commercial insurers to adjust small employer premiums based on the health status of the workers in the group and the group's claims experience. One high-cost enrollee in a small group can have a significant impact on the average expected health spending in a small group, whereas a large group can average their high-cost cases over many people. Almost all states allow significant variations in premium rates as a function of the age of the workers, and many also allow adjustments based on the industry of the employer. These rating practices create additional difficulties for many small employers to obtain affordable coverage for their workers.

Another barrier to small employers providing health insurance is that the typical worker in a small firm is paid significantly less than workers in large firms, as shown in table 3. The median wage for workers in firms with fewer than 10 workers is about \$10,000 less than in firms of 1,000 or more workers. Economists believe that there is an implicit tradeoff between cash wages and health insurance benefits.<sup>7</sup> In other words, workers actually pay for the cost of their employers' contributions to their health insurance by receiving wages below what they would have received had no employer health insurance been offered. The lower wages of small-firm workers imply that they are far less able to

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<sup>6</sup> D. Cutler. 1994. "Market Failure in Small Group Health Insurance." Working Paper No. 4879. Cambridge, MA: National Bureau of Economic Research, Inc.

<sup>7</sup> L. J. Blumberg. 1999. "Who Pays for Employer Sponsored Health Insurance? Evidence and Policy Implications," *Health Affairs*, vol. 18.

pay for health insurance through wage reductions; consequently, their employers are less likely to offer them such benefits.

Small employers are also disadvantaged by being financially unable to devote significant resources to shopping for health insurance coverage for their workers. Doing so carefully can be an extremely time-consuming process. Small business owners do not usually have a benefits manager to take on this task and so are often left to do so themselves. Often this means relying upon an insurance broker to make choices on their behalf.. Reports of “churning,” or annual turnover of health insurance policies by small groups, are very high.

Workers in small firms that do not offer health insurance are often left with few options for health insurance coverage, and 70 percent of all uninsured workers have no access to an employer-based insurance plan (either their own or through a family member). Those that do not have a spouse with an employer offer and who are not eligible for public insurance programs have the option of pursuing coverage in the private, individual insurance market. In the vast majority of states, there is no guarantee that an individual can purchase health insurance in this market at any price. If a policy is made available, premiums in most states can be set very high as a consequence of current or prior health status, and benefit exclusions may permanently or temporarily exclude coverage for particular conditions, body parts, or body systems. Policies in this market also tend to have considerably higher cost-sharing requirements than is the case in the employer group market, as insurers perceive demand for more comprehensive policies as a signal

for high expected medical care use. As a consequence, affordable policies in this market may still pose significant medical service access limitations for modest-income workers. Plus, the administrative costs associated with these policies are the highest of any private health insurance product sold, and the lower the level of benefits, the higher is the share of the premium attributable to these administrative costs.

The challenges to small employers in providing health insurance to their workers may introduce economic inefficiencies into labor markets. First, individuals may not be choosing the job options best suited to their skills and productivity as a consequence of their preferences for health insurance coverage. For example, a worker that prefers a job in a small firm compared to one in a large firm may not take the small firm job if they or their family members have a strong preference for health insurance coverage and do not have other sources (public or private) for obtaining coverage outside of the chosen workplace. Second, individuals wishing to start their own businesses may be hampered from doing so because of the difficulty and costs associated with obtaining insurance coverage as a small business owner. These circumstances are often referred to as “job lock.” Health insurance has been shown in the empirical economics literature to have significant impacts on job choice and job mobility.<sup>8</sup> The magnitude of the efficiency implications of job lock is less clear at this time, however.

**Assistance Provided via H.R. 3200.** A number of provisions in “America’s Affordable Health Choices Act of 2009,” (H.R. 3200) would provide significant assistance related to

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<sup>8</sup> See Jonathan Gruber and Brigitte Madrian. 2004. “Health Insurance, Labor Supply and Job Mobility: A Critical Review of the Literature.” In *Health Policy and the Uninsured*, Catherine McLaughlin, ed., Urban Institute Press, Washington, DC.



health insurance coverage for small employers and their workers. The most important of these, in my opinion, are the establishment of a national health insurance exchange along with significant reforms to insurance market rating rules and the provision of subsidies to assist the low-income population purchase health insurance coverage through the exchange.

*The National Health Insurance Exchange.* A national health insurance exchange would provide an organized marketplace for individuals and some employer groups, usually small employers, to purchase health insurance.<sup>9</sup> Under the proposal, the exchange would contract with private health insurers and offer a public health insurance option to small employers and those purchasing coverage on their own. In the first year, firms with fewer than 10 workers would be eligible to buy coverage in the exchange; this would expand to firms with up to 20 workers in the second year, and could be expanded further in later years at the discretion of the Health Choices Commissioner.

New insurance market regulations would prohibit preexisting condition exclusion periods, would limit age rating to a ratio of 2 to 1 (i.e., the oldest adult could not be charged more than twice the premium of the youngest adult for identical coverage), and would prohibit all health status rating, gender rating, and rating based upon industry of employment. In this way, the health care risks of workers in small firms would be spread more broadly than they are today in the vast majority of states, shared across all those

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<sup>9</sup> Linda J. Blumberg and Karen Pollitz. 2009. "Health Insurance Exchanges: Organizing Health Insurance Marketplaces to Promote Health Reform Goals." Urban Institute Policy Brief Series, Timely Analysis of Immediate Health Policy Issues. Available at [http://www.urban.org/UploadedPDF/411875\\_health\\_insurance\\_marketplaces.pdf](http://www.urban.org/UploadedPDF/411875_health_insurance_marketplaces.pdf)

enrolled in coverage through the insurance exchange. Not only would workers in small firms have a choice of insurance plans—a situation extremely unusual for small groups today—but those that have been priced out of the market due to health issues or an older workforce in the past may have affordable access to coverage for the first time. In addition, all small groups purchasing coverage would see a significant decrease in the year-to-year variability in premiums with this broader-based sharing of health care risk.

Small employers can also be expected to reap administrative savings from purchasing coverage through the health insurance exchange. Administrative costs are a significant component of group insurance premiums, with the Congressional Budget Office estimating that they range from 7 percent of premiums for the largest groups up to 30 percent of premiums for the smallest groups and individuals.<sup>10</sup> A significant component of administrative costs are marketing expenses. For example, insurers typically pay agent commissions of 10 percent of the first year's premium in the small-group market; first year commissions are even higher in the nongroup market.<sup>11</sup> A more organized marketplace run through the exchange, which provides greater consumer protections and improved information, could reduce marketing costs significantly. For example, the Massachusetts Connector, the exchange developed under that state's health care reform initiative, currently pays agent commissions that range from 1.3 to 3.3 percent of premiums, significantly lower than prior to reform.<sup>12</sup>

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<sup>10</sup> Congressional Budget Office. 2007. "CBO's Health Insurance Simulation Model: A Technical Description." Washington, DC: Congressional Budget Office.

<sup>11</sup> Linda Blumberg and Karen Pollitz. 2009. *op. cit.*

<sup>12</sup> "Broker Commission Schedule," presentation to Commonwealth Connector Board Meeting, March 8, 2007.

In addition, all those enrolling in insurance coverage through the proposed national health insurance exchange would have the option of remaining in the exchange, even if they change employers or leave the workforce. As a result of that consistent eligibility and the broad-based risk-pooling in the exchange, annual churning across insurance policies should be significantly reduced, which should also lead to administrative savings<sup>13</sup> as well as significantly reduce job-lock. The presence of the public plan option under H.R. 3200 would also provide small employers and their workers with an especially low administrative-cost insurance option relative to what they have today.<sup>14</sup>

*Subsidies for the Purchase of Insurance Coverage.* Even in the presence of the national health insurance exchange and the insurance market reforms that would be implemented in conjunction with it, small employers can still be expected to be less likely to offer health insurance coverage to their workers than larger employers, and small-firm workers less likely to enroll. This is largely because the small-employer workforce tends to be significantly lower wage than those of larger employers. As a consequence, the financial assistance in purchasing exchange-based insurance coverage and the expansion of eligibility for the Medicaid program that H.R. 3200 would provide are critical elements to expanding insurance coverage for these low-wage workers and their families. Fully 60 percent of all uninsured workers have family incomes below 200 percent of the federal poverty level,<sup>15</sup> the income group for which financial assistance provided through the bill is most generous. Almost 95 percent of all uninsured workers have family incomes below

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<sup>13</sup> Blumberg and Pollitz. 2009. op. cit.

<sup>14</sup> John Holahan and Linda J. Blumberg. 2009. "Is the Public Plan Option a Necessary Part of Health Reform?" Urban Institute Policy Brief Series, Timely Analysis of Immediate Health Policy Issues. Available at [http://www.urban.org/uploadedpdf/411915\\_public\\_plan\\_option.pdf](http://www.urban.org/uploadedpdf/411915_public_plan_option.pdf).

<sup>15</sup> The Henry J. Kaiser Family Foundation. 2009. op. cit.

400 percent of the federal poverty level, and all of these workers would be eligible for some financial help in purchasing coverage through the exchange.

**Summary.** Small employers and their workers face a broad assortment of barriers to obtaining health insurance coverage today. These include high administrative costs, limited ability to spread health care risk, and a low-wage workforce. These issues have led to low rates of employer-coverage offers by small employers and high rates of uninsurance among their workers. Left to purchase coverage as individuals, the workers in small firms have few if any options for obtaining adequate, affordable insurance for themselves and their family members today. A new health insurance exchange, such as the one proposed in H.R. 3200, would spread health care risk and reduce administrative costs. The financial assistance provided under the bill to the low-income population for the purchase of exchange-based coverage and the expansion of the Medicaid program would benefit many small-firm workers. In this way, the legislation would make adequate and affordable coverage available to many more workers of small employers than is the case today.

Table 1  
Percent of private-sector establishments that offer health insurance by firm size and wage: 2000-2008

	Total	Fewer than 10 employees	10-24 employees	25-99 employees	100-999 employees	1000+ employees
<b>All firms</b>						
2000	59.3%	39.6%	69.3%	84.5%	95.0%	98.2%
2008	56.4%	35.6%	66.1%	81.3%	95.4%	98.9%
Percentage Point Change:	-2.9%	-4.0%	-3.2%	-3.2%	0.4%	-0.3%
Percentage Change:	-4.9%	-10.1%	-4.6%	-3.8%	0.4%	-0.3%
<b>Firms in which 50% or more of employees are low wage</b>						
2000	42.5%	25.4%	46.3%	73.5%	94.2%	96.4%
2008	41.8%	18.4%	36.6%	60.1%	91.4%	98.0%
Percentage Point Change:	-0.7%	-7.0%	-9.7%	-13.4%	-2.8%	1.6%
Percentage Change:	-1.6%	-27.6%	-21.0%	-18.2%	-3.0%	1.7%
<b>Firms in which fewer than 50% of employees are low wage</b>						
2000	64.7%	50.2%	83.4%	92.4%	96.9%	99.4%
2008	63.8%	44.0%	79.3%	91.8%	97.6%	99.4%
Percentage Point Change:	-0.9%	-6.2%	-4.1%	-0.6%	0.7%	0.0%
Percentage Change:	-1.4%	-12.4%	-4.9%	-0.6%	0.7%	0.0%

Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2000 and 2008 Medical Expenditure Panel Survey-Insurance Component.

Table 2  
Health Insurance Coverage of Workers by firm size: 2008

	self-employed	<25 employees	25-99 employees	100-499 employees	500-999 employees	1000+ employees
Employer Sponsored	46.6%	50.9%	68.4%	75.2%	77.8%	77.2%
Individually Purchased	18.8%	7.7%	4.5%	3.1%	3.5%	3.5%
Medicaid	4.3%	6.8%	5.5%	5.1%	4.5%	4.8%
Other	2.3%	1.5%	1.1%	1.0%	0.8%	1.0%
Uninsured	27.9%	33.2%	20.4%	15.5%	13.3%	13.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Kaiser Family Foundation, 2009. The Uninsured: A Primer. Supplemental Data Tables, available at: <http://www.kff.org/uninsured/7451.cfm>.

Table 3  
Annualized Median Wage  
by Firm Size, 2008

Firm Size	Median Wage
All Firm Sizes	\$33,000
Under 10	\$27,733
10-24	\$28,000
25-99	\$31,000
100-999	\$35,000
1000+	\$37,333

Source: Urban Institute tabulations of the  
2009 Annual Social and Economic Supplement  
to the CPS.

Mr. STUPAK. Thank you all for your testimony and for being here today. We will start with questions.

Mr. Landauer, you said you have a congenital heart condition. I take it you have always disclosed that to the insurance companies?

Mr. LANDAUER. Yes.

Mr. STUPAK. Then why have your rates dramatically increased? Have you started utilizing the service more?

Mr. LANDAUER. About 8 years ago, I had my third major operation that was about \$500,000. Basically, the past 4 years, they have gone up tremendously. I'm using probably \$40,000 a year just in a test to make sure that they don't need to do another operation.

Mr. STUPAK. I guess what was confusing me a little bit, your rates have gone way up, but it seems like your surgeries were earlier. I was trying to put some correlation there. That is what I was trying to do.

Mr. LANDAUER. I understand that. Yes, my surgeries were 8 years ago, my last major surgery, and yet the rates started climbing 4 years ago.

Mr. STUPAK. Mr. Hetrick, let me ask you a question along the same lines. Long before your wife passed on, you had insurance. And then you indicated when she got sick, the year she was really sick, you had a 28 percent increase. And when she passed on, you asked them to recalculate; and it would have been only a 10 percent increase.

Mr. HETRICK. I am having trouble hearing you.

Mr. STUPAK. OK. You indicated you have had insurance while you were in business, 16 years, or whatever it was?

Mr. HETRICK. Yes. I started the company 16 years ago. I probably got the first insurance about 14 years ago.

Mr. STUPAK. And then your wife became ill?

Mr. HETRICK. Yes.

Mr. STUPAK. And she was part owner of the business and so she was a covered employee?

Mr. HETRICK. Yes.

Mr. STUPAK. And then that 1 year your rates increased 28 percent?

Mr. HETRICK. 28 percent.

Mr. STUPAK. And, unfortunately, after your wife died, you asked them to recompute; and they said, oh, it should have been maybe a 10 percent increase?

Mr. HETRICK. Correct.

Mr. STUPAK. Just think out loud. I would think all those years when I paid for insurance, when I did get sick, I wouldn't see a dramatic increase because I have been paying all those years. That's why I have insurance. So you stabilize your costs and your risk, but that does not seem to be the case. It seems like in your case your big increase was because, unfortunately, your wife got ill.

Mr. HETRICK. Right. The only thing that changed, the reduced risk factor that was quoted in the e-mail that came to us, was Pam died. So, since her death, rates have gone back to somewhat they are for other small businesses in America. Our rate increase last year was 19 percent.

Mr. STUPAK. We have insurance and we think we build up a reserve so, when we do get sick, we have been paying all of these



years, you would think they would pay the claim. And you said they were pretty good about paying, but then you wouldn't expect them to try to pick up that loss all in the next year or two.

Mr. Walker, you said your secretary—and I compliment you for keeping the insurance so she can at least get some coverage here—you said refused a quote. Was that your secretary trying to buy an individual policy or was your company—your company refused the quote because she was on your policy?

Mr. WALKER. It was an individual policy. Salesmen will walk in off the street and want to quote. I always felt it was my duty to do the best for my employees and do the best for the company. OK, quote us another policy and see if you can beat what we have got.

This happened just a couple of weeks ago after we were all involved in this. This was a HumanaOne policy. A guy I had known just started selling health insurance. He came back and said, here is a quote for you, you, and you. Mindy, sorry, we can't help you. So, guys, let's huddle up and talk about your health insurance. She confronted him about it; and he said, until she has been cancer free for 10 years, they wouldn't even give her a quote.

Mr. STUPAK. So if you dropped her, she would be out of luck?

Mr. WALKER. Completely out of luck. If she loses her job, if our company continues to shrink, she is out of luck. She has no options.

Mr. STUPAK. Dr. Blumberg, please look at that chart number 3. Each of these are small businesses. They have indicated how they have struggled to try to keep things afloat, provide insurance, provide reasonable pay for their employees. If you look up at this chart, if you look in that book, Mr. Walker, what it shows is loss of future small business profits due to health insurance costs over the next 10 years. This chart shows that lost profits will skyrocket 17 times that of the 2009 levels if we do not enact health reform.

I would like to ask you about the impact of the current health care system on small business competitiveness. If we do not enact comprehensive reform for the small group insurance market, what will the impact of health costs be on small businesses off into the future? Does that chart reflect what is going to happen?

Ms. BLUMBERG. I apologize, Mr. Chairman. I don't see that.

Mr. STUPAK. I misspoke. I'm sorry. Tab 11.

Ms. BLUMBERG. OK, tab 11.

Clearly, the problem is that small businesses are already starting with one foot in the hole in terms of purchasing health insurance coverage. They simply are not efficient purchasers of coverage as a consequence of the way small insurance markets work and the marketing costs that are associated with selling coverage small group by small group in addition to the limitations with regard to risk pooling that there are in the current voluntary small group insurance market. So, already at a disadvantage, their costs of purchasing coverage are high relative to the wages of the individuals that they are buying coverage for.

And what has been going on trend-wise is that the cost of medical care grows faster than income, faster than wages. So it really is going to become increasingly difficult over time if nothing changes those trends and nothing changes the way that these markets work for small businesses to the point we are already seeing incredibly low rates of coverage among the smallest employers and

it has got to—it will get much worse over time until it is quite unusual for a small employer to be able to offer coverage at all.

Mr. STUPAK. Thank you. My time has expired.

Mr. Gingrey for questions, please.

Dr. GINGREY. Mr. Chairman, thank you.

I want to say to all of the witnesses again, thank you for your testimony.

Before I begin my questions, I would like to raise two issues.

First, the troubles of our three business owner panelists are, unfortunately, not unique. Many in this country are finding it harder and harder to afford quality health care. In fact, Federal officials just yesterday announced that Medicare premiums for seniors will shoot up by over 15 percent, to \$110 a month, Part B premium.

Reducing the cost of health care in this country and making sure that those with chronic illnesses can access the same type of affordable insurance as healthy Americans should be two of our main goals. Unfortunately, the rising costs of health care is a universal problem and one that we do not solve I don't think with H.R. 3200.

Second, hearing your testimony today, I would like to suggest a market reform that I have long advocated that I think would benefit both those employees with chronic illnesses as well as their healthy colleagues.

High-risk pools—we talked about this a littler earlier, but high-risk pools were created to offer those with chronic illnesses a place to purchase health insurance at affordable rates, regardless of their chronic conditions. By embracing high-risk pools in the States—and I think 28 States actually have embraced them—we have a chance to create a unique solution to a unique problem, namely, how a tragic illness can disproportionately hit the health care costs of small business owners and their employees.

Mr. Chairman, I raise that concern because I truly believe that H.R. 3200 does little to address either of these concerns. Everyone in this body wants to reform what ails our current system. I wish we could find a way to combine that want for change into an opportunity to sit down and find a common solution to this problem.

I practiced medicine for nearly 30 years, Mr. Chairman, as you know; and I have seen firsthand how policies in Washington impact patients back home, for better or for worse. I, like many of my colleagues, just want an opportunity to share our experiences with you; and I would like to ask unanimous consent to submit this letter that 22 of your Democratic colleagues submitted to Speaker Pelosi back on July 16, 2009. I would like to submit that for the record.

Mr. STUPAK. Let me just take a look at it.

Dr. GINGREY. Certainly, Mr. Chairman. I appreciate you looking at that.

While you are glancing at the letter, let me ask a question of Dr. Blumberg.

As you know, H.R. 3200 contains a surtax which would apply to any adjusted gross income exceeding \$280,000 a year for an individual and \$350,000 for a couple filing a joint return. The tax rates would range anywhere from 1 percent to 5.4 percent for those earning more than a million. According to 22 House Democrats—that is the letter that I submitted to the chairman for inclusion in the

record—these taxes would fall largely on small businesses and manufacturers. They wrote in a letter to Speaker Pelosi, and I quote, that many successful small businesses, the very kind that should lead in creating jobs and help us emerge from this very recession, will be taxed at over 50 percent.

Do you agree with these House Democrats that we should not tax small businesses?

And, before you respond, I want to get the chairman's response to my unanimous consent request.

Mr. WAXMAN. Could the gentleman state his unanimous consent request?

Dr. GINGREY. Chairman Waxman, absolutely.

The request is that we submit the letter that was written to Speaker Pelosi on July 16, 2009, by 22 House Democrats regarding this issue, this concern of the surtax and what adverse effect it would have on small businesses and job creation in this country.

Mr. STUPAK. I have no objection.

But again, as Ms. Blackburn pointed out before, there is no surtax on small businesses. The surtax is on 1.2 percent. In fact, I think in Mr. Braley's district, 99.3 percent of the people would not see any increase. So there is no surtax.

We will accept the letter that you would like to submit for the record.

[The information appears at the conclusion of the hearing.]

Mr. STUPAK. It goes on to say, these 21 Members, that health care reform should be good for small businesses, and as long as small businesses are not unfairly burdened by H.R. 3200, we are confident that it can be. And I think we all agree we do not want to burden small businesses.

Dr. GINGREY. Mr. Chairman, I appreciate you accepting that letter for the record.

Dr. Blumberg, if you would respond.

Ms. BLUMBERG. My understanding of the bill as it stands right now is consistent with that of the chairman's, that this component, this financing component of the bill, would not impact, would not be a tax on small business income. It is a tax on high-earning individuals; and, as such, I don't have any objections in terms of the imposition of that type of tax. But I think there has been some misunderstanding of how it would be imposed.

Dr. GINGREY. Dr. Blumberg, thank you. We will give you a copy of that letter that was submitted and will be included in the record for your perusal at a convenient time for you to do that.

I know it is subject to interpretation, but, as Ms. Blackburn pointed out, so many of these small businesses are not C corporations, they are sole proprietorships or S corporations, and they file as individuals. And basically no matter what number that might be—the chairman has indicated it is a very small number—but my question—and maybe I can direct it to our small business witnesses as well—if indeed, in addition to having to pay these astronomical increases in your health insurance premium year after year after year, you also had to file as an individual these high surtaxes from 1 to 5 percent on your income above \$280,000, what adverse effect would that have on your ability to not only hire people but continue as a growing concern?

Maybe we can start with Mr. Landauer.

Mr. LANDAUER. I'm trying to understand your point. I file an individual income tax return, and I am also an S corporation, but that is completely different from my individual income tax. I don't see how it would be affected by your saying—

Dr. GINGREY. Thank you, Mr. Landauer.

Mr. Hetrick, you mentioned in particular the problem you have with regard to the way your health insurance premium—you have to pay. You don't get a tax break at all.

Mr. HETRICK. I am also an S corporation owner, and so I have to channel all of the business's income through my personal return. Part of that income is the health insurance premium because it is taxable income to anyone who owns more than 2 percent of an S corporation.

Dr. GINGREY. Mr. Walker, I have to yield back. The chairman has been awfully generous with the time, but I have run out of time. I hope to have a second round.

Mr. STUPAK. Chairman Waxman for questions.

Mr. WAXMAN. Thank you, Mr. Chairman.

The surtax that is in the House bill is a tax on high income individuals, and there is a joint tax committee that said this surcharge would have no impact on 96 percent of small business owners. It would effect only the highest income, 1.2 percent of taxpayers. So I think we are getting a misinterpretation of what the bill provides. But let's look at the reality. Health care costs are going up. They are going up overall. So how do we handle those increases in costs?

If you are in a small business, the insurance companies are saying to you if somebody in your business gets sick, we are going to control the costs by making everybody else in that business pay a higher premium. That is not controlling costs, that is shifting costs onto people who are vulnerable and who have no leverage to fight back.

We had a hearing last week, and there was a man by the name of Nathan Wilkes, and he worked for a small company. He loved that company. But he had a son with hemophilia which is an expensive, lifelong blood clotting disorder. So the insurance company responded by raising the costs of insurance for everyone at Mr. Wilkes's company. It is the same story we are hearing from the three of you. Mr. Wilkes described his son's medical condition as a bomb that went off, but everybody else was collateral damage because they couldn't have insurance any more when it became unaffordable. That is no way to hold down health care costs, that is simply shifting the costs.

The shocking thing to me is that what your insurance company did to you, Mr. Landauer, Mr. Hetrick, Mr. Walker and Mr. Wilkes's situation, it is perfectly legal. As far as they are concerned, it is the smart way to do business, but it is not acceptable in order to get people covered.

Now, Mr. Gingrey said what we ought to do is have these high risk pools. Well, as I have looked at high risk pools around the country, it is hard to get into them. And then they put a lifetime cap. Sometimes these lifetime caps keep you from ever getting the services you need. This can't be the solution, to give people a lifetime cap when they are sick.

Mr. Gingrey said you are going to pay a tax which I think he was wrong in saying to those of you in small businesses, but somebody is going to pay a tax. It is going to be higher income people, but somebody will have to pay more money. If they pay more money, which means we can then bring more people into the insurance and have basically everybody covered, we are not going to require in addition to any tax, that people pay extraordinarily higher insurance costs every year if somebody gets sick. That is going to be outlawed. We are not going to let the insurance companies do that any longer.

Mr. Landauer, do you think that insurers should be permitted to charge higher rates to companies in which one person gets sick or has a chronic condition? It is an obvious question. Obviously not. You know from your own experience how unacceptable it is. Mr. Hetrick, you described your own experience with an insurance company imposing steep premium increases due to your wife's health status. I assume you think it is wrong to allow that to happen, even though it is legal.

Mr. HETRICK. Mr. Waxman, I am the son of a life insurance executive, and so I understand underwriting.

If we are going to allow the underwriting based on groups of 15 people or 13 people or 3 people, or whatever Mr. Landauer has, then the underwriter is going to say, gee, you need to crank up the rates. To me the only way we can fix this is put everyone into a large group. From my personal perspective, I would love for the large group to be 300 million people and we rate the policy that way. You folks in Congress haven't seemed to quite get to the 300 million people answer yet, which would be universal coverage and single payer.

If we go to a public option, I guess what I am asking you is could we come up with a way that small businesses could group together into large risk pools so I am not dependent on my 13 people and he is not dependent on his 4.

Mr. WAXMAN. Absolutely. It wouldn't be a public option, it would be pooling people together who can't get insurance because they can't afford it, can't get insurance because their employer can't afford it, can't get insurance because they have pre-existing medical condition. All of these people would be pooled together and they would go to an exchange and they would be able to choose a private insurance policy, maybe another private insurance policy, maybe a third private insurance policy, and perhaps a public insurance policy. It would be their choice. But by pooling people together in this exchange, we are in effect pooling the risk and not putting it on a small group, and in that way we make the system make sense. Allowing insurance companies to punish businesses because someone got sick, especially a small business, makes no sense. And people in businesses buy health insurance so they will be covered if they are sick. And small businesses shouldn't have their success impinge on whether an employee gets sick and be able to pay insurance and continue in business. Thank you.

Mr. STUPAK. Thank you, Mr. Waxman.

Mr. Braley for questions, please.

Mr. BRALEY. Thank you, Mr. Chairman.

I want to talk briefly about this concept of high-risk pools; and I am referring to a report recently called High Risk Insurance Pools: A Flawed Model for Reform, dated September 29, 2008. Here is the history of high-risk pools:

The report notes that high-risk pools have been around for over 30 years and currently exist in 35 States, but they only cover 207,000 Americans. The biggest barrier to enrollment is cost. High-risk pools are inevitably expensive, because all of the enrollees have medical conditions and could potentially result in costly medical bills, which means the pools cannot spread the risks among low-risk and high-risk individuals.

And the report notes specifically the State of Florida has a high-risk pool that costs \$17,517 per enrollee, which is nearly 50 percent of the income of those enrollees. And the problem is that most of these high-risk pools are already heavily subsidized. Because if you take out of your group of insureds those people who add the most cost to the pool you are insuring and put them with other people who cost a lot of money, it is going to take an extraordinary amount of money to cover their health care costs. And that is why these high-risk pools are already heavily subsidized.

So you can't come in and heavily subsidize a heavily subsidized high-risk pool that makes any sense, and that's why many of these subsidies already cover about 50 percent of the pool and an expansion of those programs could cost as much as \$100 billion.

I think the last word in this report says, in every State that covers the uninsurable with a high-risk pool or offers coverage to the uninsurable, the very condition that made you uninsurable will be included as a pre-existing condition in the high-risk pool, usually for 6 to 12 months. That is a conversation stopper for most people. And if you have been diagnosed with cancer, you cannot wait 6 months to start your treatment.

That's what is wrong with expansion of high-risk pools as an alternative to doing what we are trying to do, which is create reasonable competition in the marketplace and more options for consumers and small businesses owners.

Mr. Landauer, I want to make sure people understand the reality of what you just described, because insurance terminology can be very confusing. But, as I understand your testimony, your firm has had to double its deductible for individual and family coverage in each of the last 2 years; is that correct?

Mr. LANDAUER. Yes.

Mr. BRALEY. And they are currently paying \$8,000 for the individual policy and \$16,000 for the family plan?

Mr. LANDAUER. Yes.

Mr. BRALEY. That means before any insurance coverage kicks in for your employees, if they are under the individual policy, they have to pay \$8,000 out of their pocket?

Mr. LANDAUER. As the shop owner, I pay half of that right now.

Mr. BRALEY. Absolutely. And thank God for that and your generosity.

My point being, until you and your employees match that deductible of \$8,000 for individuals or \$16,000 for family members, that company has been collecting premiums of between \$400 and \$800 a month and hasn't paid a dime?

Mr. LANDAUER. Correct.

Mr. BRALEY. Mr. Chairman, I think that is what is wrong with our health care delivery system and the way we pay for it in that we expect so much out of hard-working Americans like Mr. Landauer or Mr. Hetrick, Mr. Walker, and millions of other small business owners, who simply want to have an opportunity to provide their employees with the best coverage possible at an affordable price. That is why the obligation on us is to find a way to give them the options they need to do that.

I think if we have the slide that is part of tab 10, this map shows what is wrong with the lack of competition in America right now. It shows among the darkest blue the States where 80 to 100 percent of the market is dominated by two carriers. The light medium blue is 70 to 79 percent of the market dominated by two carriers and the light blue, 60 to 69 percent.

When you don't have competition in the marketplace, it goes completely contrary to the economic principles that you all have to deal with every day in your businesses. And we have got a health insurance industry that is supply driven and with limited competition, and that is the problem we need to solve.

I yield back the balance of my time.

Mr. STUPAK. Thank you, Mr. Braley.

Mr. Dingell for questions, please.

Mr. DINGELL. Thank you, Mr. Chairman.

First of all, members of the panel, my thanks and my compliments on your excellent testimony.

Mr. Landauer, according to documents obtained as a part of this committee's investigation, your insurer, Wellmark, offered your business a 41 percent increase in premium costs this year; is that true?

Mr. LANDAUER. Yes, it is.

Mr. DINGELL. How then are you going to budget or even stay afloat when you must absorb such huge unexpected increases in costs?

Mr. LANDAUER. By raising the deductible.

Mr. DINGELL. So, in raising the deductible, you reduce the premium?

Mr. LANDAUER. Correct.

Mr. DINGELL. Had you planned for this 41 percent increase in premiums?

Mr. LANDAUER. No, I had not budgeted for it.

Mr. DINGELL. So let's assume that your insurance costs will rise 200 percent in 1 year. What then would you do?

Mr. LANDAUER. Well, right now, I am taking myself off of insurance; and I do not think it will rise. I think we will pay less next year.

Mr. DINGELL. So you are indicating your cure for this is to remove yourself from insurance coverage?

Mr. LANDAUER. Correct.

Mr. DINGELL. Now, Mr. Hetrick, you discuss the importance of attracting and retaining good workers. How important is the ability of small businesses to offer affordable health coverage to their employees to recruitment and retention of efforts?

Mr. HETRICK. I think it is incredibly important. We compete every day with Eli Lilly & Company for talent in our community, and they have a remarkable benefits package. And for me to get that talent and keep them versus that big corporation, I have to have wonderful benefits.

I will tell you, Mr. Dingell, I have had to lay off seven people this year in order to retain the health benefits for those of us who remain. So that is one-third of my workforce gone, salaries gone, jobs gone, in order to continue to continue paying 80 percent of the health care premium and 50 percent of dependent coverage. So it is incredibly important to us.

Mr. DINGELL. I would note here that our committee's investigation in the small business premium situation has revealed some staggering rate increases. Six insurers were surveyed by the committee. Two reported annual premium increases of over 200 percent, two reported several increases of over 100 percent, and all reported numerous double digit increases.

Now, it is to be noted these astronomical increases are often related to change in health status of employees or other factors that you gentlemen, as employers, cannot control, like ages of workers or the fact that many of your employees might be women. And this has led, as I have indicated, to 200 percent increases in some instances. I find this terrifying.

Now, Mr. Landauer, again, I understand your deductible is \$8,000 for an individual policy and \$16,000 for a family policy; is that correct?

Mr. LANDAUER. Correct.

Mr. DINGELL. Now, Mr. Landauer, you expect this to double for your plan next year; is that correct?

Mr. LANDAUER. If I keep everything else the same, yes.

Mr. DINGELL. Would you want to amplify on that last comment, sir?

Mr. LANDAUER. With my medical costs this year alone, they are going to be around \$40,000. It doubled last year because they were \$40,000. It doubled the year before, and they were not even \$40,000.

Mr. DINGELL. Now, this I find to be a very troublesome situation. I would like to get beyond access to health insurance and to discuss the importance of access to care. You provide access to health insurance coverage for your employees, but I would guess that with the rising costs of the plan, largely realized through a skyrocketing deductible, that access is hindered for your employees. Now tell me what are you going to do next year about the plan which is, as you say, is going to double?

Mr. LANDAUER. I am going to take myself off of the plan.

Mr. DINGELL. As your deductibles increase, do you hear concerns from your employees about their ability to confront and afford these rising costs that the deductible increase imposes upon them?

Mr. LANDAUER. I hear more about the monthly cost associated with it.

Mr. DINGELL. Dr. Blumberg, if you please, can you speak to inefficiencies in the current health insurance market and the savings that can be realized from addressing them?



Ms. BLUMBERG. Well, specifically with regard to small businesses, they are inefficient purchasers, as I mentioned earlier, of health insurance coverage as a consequence of the fact that there are very high fixed costs involved with selling insurance coverage. And so when you are taking a large amount of fixed costs and spreading it over a small number of people in a small firm, the administrative costs associated with selling that coverage are very high relative to the benefits that people are obtaining. So that is one inefficiency.

Another inefficiency is that over a small risk pool, a small number of people, any individual who has extraordinarily high costs associated with their health care needs can have a very substantial impact in a particular year on the expected cost of that group. As a consequence, we see these big swings in premiums from year to year for small group purchasers. And, obviously, individuals would be willing to pay something in order to spread the costs over a period of time in order to smooth out those year-to-year variances, but insurance is not sold more than a year at a time, so they are stuck with the small pool over which to spread their needs.

Another inefficiency is, with these big swings of premiums, we see a lot of churning every year in insurance plans by small employers. So when they are faced with a big increase, they are constantly trying to find a better price. As a consequence of that moving around to different plans, they are also creating higher administrative costs, which is a dead weight loss efficiency-wise.

So what we are hoping with health care reform is to address these needs on both of those fronts, to first lower administrative costs by allowing small group purchasers to purchase coverage in the context of a national health insurance exchange. That should both lower administrative costs because some of the marketing costs, the enrollment costs associated with insurance could be done centrally, reducing those costs overall; and marketing costs in particular could be lowered that way through the exchange.

In addition, by purchasing through a health insurance exchange, we would have a situation where the costs associated with each small employer could be shared in terms of risk pooling so that the risks would not be felt when there is a big change in a particular year with a small number of enrollees.

In addition, if you are allowed to stay within the health insurance exchange over time, even if you change jobs, and because there would be less year-to-year variability in the premiums, we would see a reduction in the churning that we see now for small businesses going from plan to plan.

In addition, there are some potential inefficiencies associated with individuals picking jobs as a consequence of the health insurance choices they face; and if we eliminate the disadvantage that people face by going with a small employer as a consequence of the more limited insurance options there, then people can pick their jobs based on the best fit for their skills instead of insurance choices which does potentially create inefficiencies in the job market.

Mr. DINGELL. My time is up, but I thank you and all of the panel members.

Mr. Walker, the fact that I didn't ask you any questions does not mean that I'm not impressed with your testimony or don't appreciate your presence here.

Gentlemen and lady, thank you very much.

Mr. WALKER. Thank you.

Mr. BRALEY [presiding]. The Chair thanks the distinguished chairman emeritus and recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

From the testimony we have heard today, it is clear that skyrocketing health insurance costs are crippling small businesses, and how can we expect small businesses to compete in the market when they have to pay 18 percent or more per employee than larger corporations for the same health care plan?

Mr. Hetrick, you stated in your written testimony that either the costs of health care coverage cuts into your profits or, if we pass it along to our customer, it renders us less competitive. In the economic downturn like the one we have been experiencing, have you been able to pass increased health costs on to your customers, or have the costs come out of your bottom line?

Mr. HETRICK. Could you repeat the question?

Mr. GREEN. Particularly in tough economic times like we have, have you been able to pass any of those costs—increased health care costs on to your customers, or does it go to your bottom line?

Mr. HETRICK. No, we have tried to keep our rates competitive with what we have in the market, so it just takes down our profitability. And, quite frankly, we haven't made a profit for the last 2 years. I am covering it out of my pocket.

Mr. GREEN. So my next question is very easy. It makes it real difficult to grow if you are not showing a profit for 2 years?

Mr. HETRICK. That's correct.

Mr. GREEN. We have heard insurance premiums for small businesses are highly volatile, which hampers the business' ability to budget. Like I said, in my own experience years ago, premium increases can vary from year to year and are driven by factors that small businesses have no control over.

Without reform, small business health costs will continue to skyrocket. In the absence of meaningful reform, businesses will pay nearly \$2.4 trillion in health care costs over the next 10 years, and they will lose \$52.1 billion in profits, and their workers, their employees, will lose \$834 billion in wages.

Dr. Blumberg, do you think, can America's small businesses remain competitive if we do not reform the health insurance market?

Ms. BLUMBERG. I think there are real dangers, because I believe that the rate of small business provision of health insurance will inevitably go down over time, continuing the trends that we have seen, that it is going to be very difficult for small employers to compete for labor without some alternative source of insurance coverage for their workers. Because if they are competing for labor with larger businesses who can do a better job of providing coverage, it is going to be very difficult for them.

Mr. GREEN. Mr. Chairman, in my experience, we were a small company and we did compete with large employers, some of which were across State lines, so they were under Federal law, whereas

our company was typically under State law. And as a State legislator for many years, we couldn't control the cost of health care in Texas, and maybe that is why we had the highest number and the highest percentage of uninsured.

We have a lot of small businesses who can't do it. Somewhere along the way, we have to provide that because—provide that assistance and that reform.

I think H.R. 3200 has some problems, but I think also we need to deal with the small business issue that larger companies can bargain and get lower rates where smaller businesses can't. And it can't be done even with State coops. It has to be done on a national basis.

Thank you, Mr. Chairman, for your time. I appreciate our witnesses being here today.

Mr. STUPAK [presiding]. Thank you, Mr. Green.

Ms. Schakowsky, for questions please.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman; and thank you so much to our witnesses.

It is almost a rule in politics that we sing the praises of small businesses in our country as an engine for our economy, as the biggest creator of jobs. But I think it is high time now that we make it possible for you to continue to be those things, and the testimony that you have given has been very dramatic.

I wanted to ask you, Mr. Landauer. You said, what are my options? You said, pay for my own medical costs—I am assuming that is what you are saying—in which case I would be forced to sell the business. Is that what you are talking about?

Mr. LANDAUER. Correct.

Ms. SCHAKOWSKY. And so you are going to sell the business?

Mr. LANDAUER. If I have any major problems that require extra expense, my only option is to sell the business, because the doctors are going to require money.

Ms. SCHAKOWSKY. My goodness. You said, or maybe move to Canada. We had a panel of witnesses last week that were advised to get a divorce so that the wife could go on Medicaid and be able to pay the family expenses. I mean, this is the United States of America, and to suggest things or leave options like moving to another country or getting a divorce seemed totally unreasonable.

I wanted to mention one other thing. We had research from the National Women's Law Center that said that insurers who practice gender rating charged 40-year-old women from 4 to 48 percent more than 40-year-old men; and the investigation of this committee suggested that gender discrimination was even worse. It said, according to internal insurance company data uncovered in our investigation, the exact same policy for a healthy 23-year-old woman may cost 143 percent more than a healthy 23-year-old man.

I wondered if any of you were aware of this gender discrimination in setting rates, if it ever had to become a consideration in hiring? I would be interested to know.

Mr. Walker.

Mr. WALKER. I have never used that as a consideration in hiring. But certainly I have encountered it. It has to do with pregnancy. When women are in the years that they might get pregnant or have those sorts of expenses charged against the insurance com-

pany, their rates are considerably higher, sometimes as much as double.

Ms. SCHAKOWSKY. Yes. Mr. Hetrick.

Mr. HETRICK. I will share with you, on the issue of gender, a fairly funny story, sad story. I am now remarried. My current wife runs a national sorority. She has 47 employees at her headquarters, where she is CEO; 45 of them are female. Her insurance rates are so high that she cannot even think about insuring the dependents of those employees, because you are insuring 45 women, most of child-bearing age. So again it comes down to actuarial tables and underwriting what are the expenses of women versus men. There is a difference. And they sock it to you.

Ms. SCHAKOWSKY. It could also be who sets the rules. But that is beside the point.

Mr. Landauer, have you ever encountered that, or knew about the gender discrimination?

Mr. LANDAUER. I did not know about gender discrimination. We have had women who have been part of the company. The last woman we had was about 12 years ago. And insurance has become a tremendous mess in the past 5 years with us.

Ms. SCHAKOWSKY. Yes. I want to ask you, Dr. Blumberg, another shocking example of insurance company discrimination comes from the individual insurance market. In the individual market, some insurance companies consider it a preexisting condition when a woman has had a C-section or been a victim of domestic violence, which can justify denying coverage altogether. From a policy standpoint, is there any good public policy reason why a victim of domestic abuse or a woman who delivered a baby by C-section should be shut out of the private health insurance market?

Ms. BLUMBERG. I don't think there is any good public policy rationale for it. These are all decisions that are based on expectations of future health care spending. And in a system where individuals can make decisions about going in or out of the health insurance system, where you don't have everyone in all of the time, people will have a tendency to purchase coverage when they think they are going to need care.

As a consequence of this voluntary system, current regulations allow the insurance to set these rates to protect themselves against that type of adverse selection. And that is one of the main reasons why it is important under reform to have an individual requirement of health insurance coverage; because once you have that in place, once you have everyone or almost everyone in the system, you can prohibit those kinds of practices and stop people from being rated up as a consequence of future expectations.

Ms. SCHAKOWSKY. Thank you. And I want to thank the business owners for doing absolutely all you can to make sure that your employees have the coverage that you need.

And I see at least in two instances, you know, Mr. Landauer and Mr. Hetrick have really personally suffered from the rules of the game right now. Actually, all of you have. So we will do our best to address that. Thank you. I yield back.

Mr. STUPAK. Thanks. I think we have completed one round. I know Mr. Gingrey has a question or two. I probably do. If anyone

else, we will go another round with this panel as long as they have time. Before I go there, I guess I better go to Mr. Burgess first.

Dr. BURGESS. I will go second round.

Mr. STUPAK. OK. Mr. Gingrey, go ahead.

Dr. GINGREY. Mr. Chairman, thank you very much. And I did have a few things that I wanted to ask the witnesses. Obviously, what our concern here and what your concern and what you expressed so clearly is the cost of providing health insurance to your employees in these small companies.

And, you know, we are talking about in H.R. 3200, and then the two bills over on the Senate side, some pretty massive changes in our health care system and health insurance delivery system, something that is going to cost at least, I think conservatively, a trillion dollars over 10 years.

And the point I wanted to make and the questions I wanted to ask and see how you feel about this, certainly there are those of us on the Republican side that feel that we have some good ideas too, and that we would like to share, that we would like the Majority and the President to listen to some of these suggestions.

And let me ask a couple. In regard to your small businesses, and I want to ask all three of you—Mr. Walker, I will start with you, because I think that is where I ended during the first round. But the idea of maybe your glass company or Mr. Landauer's muffler shop, or Mr. Hetrick's communications shop joining together with other small companies, where a pool of a thousand or more created, and that you can actually purchase—shop for affordable health care for your employees with this larger pool, lower administrative costs, spreading the risk—we refer to it sometimes as association health plans. I would like your opinion on that as a cost saver.

I would also like your opinion, Mr. Walker, you mentioned the anesthesiologist in Florida that was paying I think something like \$275,000 a year for medical malpractice insurance. And CBO has estimated with malpractice insurance reform, tort reform, product liability reform, that we could save \$54 billion over 10 years. That is a nonbiased CBO estimate, and the President has said it ought to be included. And yet none of these bills—nowhere in H.R. 3200 is there anything about medical liability reform.

And then lastly, you know, Chairman Waxman was concerned about cost shifting. I have a concern that H.R. 3200, it shifts costs, but it shifts them on small businesses during an economy where we need job creation. And this letter that I submitted for the record, the 22 Democrats stated many small businesses, the very kind of businesses that should lead in creating jobs, would be taxed at over 50 percent. If this were true, would that concern any one of our three business owners? Mr. Walker, I will start with you.

Mr. WALKER. To that last question, certainly not. I have never made that kind of money. And I think the number that came out was 1 percent of us.

As to pools, let me say this. Obviously, I am not in the insurance business, but if you spread the risk you are going to lower the cost to the employee. So as for a risk pool, I wouldn't say a high-risk pool, just a pool in general, let's put some of those healthy young people behind you in the same pool with us so we can lower the costs.

Next, I have a really good example of something you are talking about. There is a duplicity in Florida, I don't know about the other States; I have to insure my employees with workers comp insurance while they are at work. So there are two systems of health insurance. Now, a few years back we had a couple accidents on the job. I can't have my guys on a construction site unless we have comp. So my answer to fixing that problem was go to an employee leasing program. Employee leasing program, technically my people don't work for me.

Dr. GINGREY. Mr. Walker, excuse me for interrupting you, I am about to run out of time. If you don't mind, address the two questions about association health plans and medical liability reform, and then quickly let's go to Mr. Hetrick and Mr. Landauer.

Mr. WALKER. I would love to see liability reform. That anesthesiologist is insured three times. That is wrong.

Secondly, what I was getting at with the workers comp question is the spreading of the risk. That is how I was able to retain workers comp.

Dr. GINGREY. Mr. Hetrick.

Mr. HETRICK. I am nowhere near the income level to pay for any kind of tax. I absolutely agree that we need to have larger risk pools. The prescription that you guys come up with for that, I don't know which one is best. I don't know if it is the exchanges, I don't know if it is cooperatives, I don't know if it is a public option, I don't know if it is universal payer. I know it needs to be done and I know the tax policies need changed so that people who are creating jobs don't get punished for it.

Dr. GINGREY. Absolutely, Mr. Hetrick. And Mr. Landauer, real quickly.

Mr. LANDAUER. I agree with Mr. Hetrick on both his answers. We do need some sort of reform with the insurance, whether it be nationwide, whether it be the single-payer plan, whether groups. And am I allowed to ask a question?

Mr. STUPAK. Sure, go ahead. I don't know if any one of us can answer it.

Mr. LANDAUER. Those of you who are against a government-run plan, are you also against Medicare for the seniors? Because to me, that is the government-run plan. So do we do away with Medicare for the seniors?

Dr. GINGREY. Mr. Chairman, I will be glad to try to take a stab at that if you will allow. No, we are not. Those of us who are against throwing the baby out with the bath water in regard to this current reform of our health care system are not opposed, not one bit, to Medicare. And many of us sitting on this panel are now eligible for Medicare. And we want it not to be weakened to pay for something else. We want it to be strengthened.

We are concerned very much about the viability of Medicare, which within 7 years will be almost insolvent. And we have \$35 trillion worth of unfunded liability over the next 50 years in the Medicare program. So when we see \$500 billion taken out of the current Medicare system, particularly Medicare Advantage, to try to insure 15 million people, many of whom are young and healthy and don't want first dollar coverage, it just doesn't make a whole lot of sense. But thank you for your question.

Mr. STUPAK. Let me give you the real answer now on that one. Actually, it was an amendment in the committee. No one voted to cut out Medicare. And under 3200 we expand Medicare by paying for preventive testing, mammograms, colon cancer, diabetes, things like this. Plus, we try to close that doughnut hole on prescription drug coverage because you have that doughnut hole. I don't think anyone is against that. It is just how are we going to structure it. That is why we appreciate all of your testimony, because small business is one of them we have been struggling with, how best to do it; 3200, three bills, they will go through changes, we will have a final vote in the House maybe later this month or early next month. And then it has to go to Senate. And after it comes back from Senate we have a conference. And hopefully after that, hopefully by December we have a final bill.

I just urge all members to take a look at the reality of the bill when we get to that final point in December and cast a vote according to all these hearings we have been having.

Mr. Burgess hasn't had a chance to ask a few questions. I am going to go to Mr. Burgess, and then I have a few questions, and then I think Mr. Braley, and then we will wrap it up. Mr. Burgess.

Dr. BURGESS. Thank you, Mr. Chairman.

Mr. Landauer, just to further expound on your observation, the issue before us is not—right now the Federal Government owns about 50 percent of the health care dollars that are spent in this country. And the question is not do we roll that back, but do we move more of that dollar into the realm of the Federal Government. There are several of us who are concerned about that.

I am a physician by trade, ran a small business for almost 25 years in my community. So I understand a lot of the difficulties that have been discussed today. I have lived them firsthand. We had a woman testify in front of this committee, or maybe it was the Health Subcommittee, who was a pediatrician in Alabama. She got my attention because she went into practice the same year I did, 1981. There is something that happens in the medical practice where you have got to pay attention to what is called the payer mix. That is, if you have patients who are covered by Medicaid and Medicare, those Federal programs, as good as they are, and many people depend on them, but as good as they are, they don't cover the cost of delivering the care in the physician's office. So the doctor is going to have to make up that cost somewhere else. And typically, with as bad as the health care profiteers, United, Cigna, and Aetna are, they do tend to allow that practitioner to be able to cover that cost that is not paid for by—that is not covered by Medicare and Medicaid.

Medicare is designed for doctors to go broke very slowly, but they still go broke. Medicaid doesn't have that same safety mechanism, so you go broke much more quickly.

In this individual's case, she had 70 percent of her practice was now Medicaid in a rural Alabama pediatric practice. And she said she is borrowing from her retirement fund to keep her doors open.

I will tell you, having had some experience with that, and you may have encountered this yourself, if you lose money on every transaction, very difficult to make it up in volume. And that is what she found herself doing. I felt like coming across the podium

and saying, Please stop that, because ultimately you are just going to spend down your retirement plan and then you are still going to be in the same problem you were before. Her problem was too much of her practice was now the public option, if you will, Medicaid.

So that is what worries a lot of us. Are we going to erode the ability to be able to continue for doctors around the country to keep their practices open if we go to a larger government share.

There are obviously other things that are involved in that, and you have heard many of them today. But that in brief would be my answer to your question. Nobody is talking about rolling back the part of the public option, if you will, the part of the public insurance that already exists. It is what it is right now, and no one thinks that that is going to be removed.

I would just like to ask—and I apologize, Mr. Chairman, for being late. I was at the National Institute of Health for most of the day. Reading through the testimony—and I apologize, Dr. Blumberg, I don't think I had yours—but just the testimony of our small business owners, it seems like there is a recurrent theme is that pooling came up as an issue, and the ability to pool your employees or your people that you are looking to insure. The concept of association health plans, where you can pool not just from within your own neighborhood, but if it is a group of florists or realtors, even doctors' offices or dentists' offices, you can pool with like business models even around the country to get a much larger patient pool.

Very difficult to get the young folks behind us to sign up because we are talking about an insurance payment that essentially equals a bass boat, and they are healthy and the bass are biting, so I don't blame them for not wanting to buy insurance. But if you can pool and keep those costs low, that is a way to bring more people in. And I think one of you said it, you broaden the base and lower the rate.

Same thing that we should be focusing on for taxes. But are you familiar with the concept of association health plans? It is something that has been talked about up here predating my arrival in Congress. But have any of you explored that as a possibility or an option? I mean you can't do it now because we don't let you. But if we did let you, would it be an option that you would consider?

We will just go down the table. Mr. Landauer.

Mr. LANDAUER. Yes, that would be an option that is very much considered. My brother is an accountant in the State of Iowa. And he belongs to a State group of accountants for insurance purposes only. And that keeps his costs low on insurance. And if they can do that for the accountants in Iowa, they should be able to do it for the muffler shop owners not only in Iowa, but nationwide. So yes, that is a very good option.

Dr. BURGESS. I tend to think of that as ERISA for the little guy. And if it is working well in Iowa, wouldn't it also be great if he could also partner with accountants in Missouri and Oklahoma and get an even larger pool from which to then negotiate the rate with the insurance company?

Mr. Hetrick, do you have a thought on that?



Mr. HETRICK. You know, I have talked about the risk pool here is a good idea, a bigger risk pool for businesses. It still leaves us with an employment-based health care system. And it doesn't help the people who lose jobs or change jobs. So it may be part of the answer.

It can't be the only answer, because I have laid off people this year. And the biggest concern about laying people off is that the COBRA runs out after a while. And the COBRA is incredibly expensive. And I feel incredibly guilty laying people off, but I had to lay some people off in order to keep the other people's health benefits coming.

Dr. BURGESS. I am going to get cut off by the Chairman here. You are correct about your observations on COBRA. My opinion is there are things that are within our purview and ability to modify that system and improve that system so it is not so injurious. But what about the effect of having an 8 percent payroll tax on your looking over the horizon and hiring back employees when the business improves?

If 3200 has an 8 percent employee tax—

Mr. HETRICK. If all health care is paid out of tax dollars?

Dr. BURGESS. If 3200 were to pass as is today. Certainly not all health care is paid for out of tax dollars, because we still leave 17 million uninsured under 3200.

Mr. HETRICK. I think you are now down to the fundamental question: Is health insurance a responsibility of society to the people who are members of it? And do we all have the shared obligation?

If you want to talk about—all the solutions that we are looking at are trying to find some subset of society to pay for another subset of society. We are asking now for businesses to pay for a large portion of society. We ask for the government to pay for some portion of society.

Dr. BURGESS. We don't pay for it. We take the money from you. We don't earn any money on our own. We produce nothing. You may not have noticed that today.

Mr. HETRICK. Technically, the best way to spread the risk is to put everybody in the risk pool and for everybody to share in the cost equally. And this is the situation—

Dr. BURGESS. As a practical matter—forgive me for interrupting—but as a practical matter, an 8 percent payroll tax, what does that do to you for job creation going forward? As you look over the horizon, the job market or the economy is improving, you are going to bring people back into your business. But now whether someone wants to provide the insurance or not, there is an 8 percent payroll tax affixed to that job.

Mr. HETRICK. I am sorry, I have trouble hearing.

Dr. BURGESS. The payroll tax will be the employer mandate, that everyone of course will contribute. So is this 8 percent—I mean this is one of the largest taxes that has ever been levied upon—one of the largest taxes that has ever been levied on small business. Is that going to have an effect on your ability to hire in the future?

Mr. HETRICK. It is still employment-based. You are still basing your system on people who work.

Dr. BURGESS. But that is the language in 3200 that we have in front of us, is that it will be paid for with an employer mandate. So people who work, you are correct, will be paying the bills. The employers will be assessed a tax, whatever you want to call it, a premium of 8 percent of their payroll to cover the cost of the insurance.

Mr. HETRICK. If I am paying for a tax to get the health coverage or paying the insurance company to get health coverage, I want the best deal. To me it is like getting my son's college loans. I had a choice between a private lender and a government direct lending program. And those two went into competition with each other, and it helped drive the rates down on both sides of the deal.

I would love to see the same thing on the health care. So the payment mechanism of it, whether I am paying for a government-funded program or paying the insurance company as I am now, I want the best deal.

Dr. BURGESS. So you would—if the best deal were to pay the 8 percent payroll tax, people would—you would move away from a private insurance to the government insurance. That would be a business decision that you would make, would be to leave the private system and go to the government system.

Mr. HETRICK. I want to look—

Dr. BURGESS. And that has been one of our concerns as well, that we will drive out the private sector. And again, as my response to Mr. Landauer, if you erode the private sector—remember, the private sector is paying part of the freight. It is carrying part of the load for the public sector. I am not here to apologize for insurance companies. They brought a lot of the problems on themselves. Still, they fund the government-run insurance currently. We couldn't run our offices without that ability to pick up some from the private sector. I am sorry, Mr. Chairman.

Mr. STUPAK. You used both rounds at once.

Dr. BURGESS. I knew you missed me all day, so I wanted to take full advantage of that.

Mr. STUPAK. Thank you, Mr. Burgess.

Just one or two questions to wrap this up. It is my understanding the supplemental report we wanted in earlier comes in without objection; is that right, Mr. Gingrey.

Dr. GINGREY. Mr. Chairman, on that, excuse me, Mr. Burgess, on that specific question, while we do not object to the inclusion of this staff memo, we again caution the Majority that the inclusion of specific examples in States with only a few insurance companies could make it apparent which insurance company is being discussed in each example.

I do waive my reservation, Mr. Chairman, and I yield back. I just wanted to make that point.

Mr. STUPAK. Sure. And on the supplemental report here dated October 20th, if there are some redactions you want, just let us know and we will put it in there. But I don't see anything in there.

Let me ask a question along those lines. In the supplemental memo dated October 20th, we talk about group-specific factors. And Dr. Blumberg, it may be appropriate to ask you, I mean you have your baseline in health care which is based on utilization and rate-setting and that, but then you go into group factors. And for small

businesses, it indicated that the group factors are health and claims experience of the group, the age of the group, the sex of the group, the size of the small business, the number of employees, the industry. And then we go to a final part of the rate creating which depends on administrative costs, profit that the insurance carrier expects, plus the agent's commissions, plus the taxes. So the small business or anyone buying insurance is paying about nine different factors for small businesses.

Is that the same with larger businesses, or does this larger pool just sort of wipes out many of those factors?

Ms. BLUMBERG. Well, the vast majority of the very large businesses are self-insured today. So their costs are based on the risk of those that are in the firm. But once you get to a large size, then basically the distribution of expenses within the firm looks like the distribution of expenses in the population at large.

And so you don't have to worry about these things at a micro level. You are looking at the whole group. You are basing it on the law of large numbers. And so for those medium-sized firms who are buying commercial coverage, those are experience-rated as well, but they are at lower administrative costs than the small firms are. And sometimes they do face difficulties as a consequence of their risk. But they are less likely than a small firm to have those big risk swings from year to year because of their size.

Mr. STUPAK. OK. And Mr. Walker, Mr. Hetrick, Mr. Landauer, it seemed like your premiums went up as your employees went down. Correct?

Mr. WALKER. That is correct. I am sorry, Mr. Landauer or me?

Mr. STUPAK. Mr. Walker, go ahead.

Mr. WALKER. No, as the economy crashed—

Mr. STUPAK. Right.

Mr. WALKER [continuing]. Then we were caught up in the insurance's ability to climb out of the economy. And they actually raised the rates to keep themselves employed, or so it seemed to us.

Mr. STUPAK. I am from Michigan. Our small businesses are looking at 22 to 40 percent increases in just this year alone, and not necessarily because they lost employees; just the economy. And the economy is bad in Michigan, and we are just getting hit again.

Mr. Landauer, do you have anything to add to that, or Mr. Hetrick? Just what I was saying, Mr. Hetrick, the number of employees, it seemed like if you lose employees, you said you had to lay off employees, therefore your rates then went up because you had less of an area to spread a risk over.

Mr. HETRICK. How many have we cut back?

Mr. STUPAK. No. Just did you realize that as you dropped employees—you said you had to lay some off to pay for your health insurance—then your health care costs actually went up because you have less employees to spread that risk over.

Mr. HETRICK. Since we have fewer people on, the cost went down, unfortunately.

Mr. STUPAK. Oh, yours went down. OK.

Mr. HETRICK. We also have had 2 years, 2007 and 2008, when we had the only single-digit cost increases in our company's history. It had been double digit every other year except those two. Now it is back to 19 percent.

Mr. STUPAK. Our committee now for 2 years we have been looking at the private insurance industry, and we have had our last three hearings now—it seems like the insurance companies win; if you have no claims, they get their money. No claims, they are not paying out, they make profits. People get sick, premiums go up, they make profit. You really get sick, they drop you or else they will purge a small business from their rolls. It seems like in every scenario, the insurance industry still wins.

Where is their risk? You are all talking about pooling and spreading the risk. Where is the risk for the insurance industry? I guess I don't see any. Mr. Walker.

Mr. WALKER. I can tell you that I bet the three of us, we have never met each other, but I will bet you the three of us have lost any ability to trust an insurance company because of that situation. And that is why we are probably all three in favor of at least a public option.

Mr. STUPAK. Dr. Blumberg, one more question if I may. There are a lot of us that talked about the insurance industry is not subject to antitrust laws. If they raised their rates 18 percent, 28 percent, 22 percent, really nothing you can do about it. There has been a lot of discussion about taking away the antitrust exemption. Would that create competition in the marketplace to lower some of these rates for small or large businesses?

Ms. BLUMBERG. You know, the situation is very difficult because there really is very little in terms of oversight of rating by State regulators. And the States are really where the vast majority of regulation of the insurance industry is today. And the resources there are really concentrated on ensuring that insurers are solvent and they meet the minimum solvency requirements. So there is not a lot of attention paid to how much the rates are going up and in what way they are going up, for whom.

And so, you know, I am not an antitrust attorney, so I am not an expert in that area. But all I would caution is to say that I am not as concerned about the antitrust, you know, provisions as I am about greater oversight of the way that the insurers are operating.

Mr. STUPAK. Thank you. Mr. Braley, a question?

Mr. BRALEY. Thank you, Mr. Chairman. I was a little bit surprised when Dr. Burgess went down the route of talking about this onerous 8 percent tax per employee on small businesses. Because I was attacked at one of my town hall meetings on health care reform by a small business owner who accused me of giving incentives for businesses to dump existing health care coverage they have that is more costly than that 8 percent requirement in order to save costs and improve their bottom line.

So let's talk a little bit about those numbers. And I would be interested in all of your feedback on this. There are many small businesses in Iowa that employ people who make \$20,000 a year or less. And when you are looking at the average annual premium for a family of four for small businesses at \$13,000 a year, let's talk about that number. If you pay an 8 percent surcharge on an employee making \$20,000 and they can go into the exchange and buy their own product with some supplemental affordability credits, that is going to cost a small business owner \$1,600. That sounds considerably less than \$13,000 a year. A \$40,000 a year employee,

what is that going to cost you if you decide that option? \$3,200. Somebody making \$60,000 a year working for a small business in Iowa is doing pretty well, aren't they, Mr. Landauer? \$4,800 a year. That is about a third of what it is costing right now to insure a family of four. You can make \$120,000 a year working for a small business, pay 8 percent into the exchange, and pay \$9,600, substantially less than it costs right now to insure a family of four.

So when Congresswoman Blackburn was talking about confidence in the free market-oriented health care solutions to address these problems, count me as skeptical. There has been no institutional impediment to associated health care plans addressing the needs of small business owners in all 50 States. Have they done it? No. That is the problem that we are facing with health care. And I would just invite each of you to respond to the problems that I have just identified. Mr. Landauer?

Mr. LANDAUER. Would you repeat the question?

Mr. BRALEY. I won't go through the whole thing. I mean isn't it true that as a small business owner, if you are struggling to get by and these rising health care costs are tapping every dollar you have available to return a profit, that if you have an opportunity to pay substantially less by paying 8 percent of your employees' income into a pool and letting them choose their own health care, and if they are eligible they qualify for affordability credits to get a health care product that may be better than what you are offering them now, how is that not a positive outcome?

Mr. LANDAUER. Correct. That is a perfect way of doing business.

Mr. BRALEY. Mr. Hetrick, do you have any comments about that?

Mr. HETRICK. Given the choice, I would have to look at which was the better deal if the coverage is equal. We have always erred on the side of providing quality coverage for our people.

Mr. BRALEY. And you made a very good point, because you are in a market where you are competing for good employees. And one of the things we know is that in a free market system, that is always going to provide incentives for employers who want to attract the best caliber of employee, to offer a better benefits package to their employees.

Mr. HETRICK. Yes.

Mr. BRALEY. And that is why in the exchange that we have constructed there is a basic plan, a premium plan, an enhanced plan, and a premium-plus plan, so that employers can go in, even though they are going to have some basic required elements of coverage, and decide what makes most sense for their employees.

Mr. HETRICK. Absolutely. And if you have got a cheaper way for me to pay for that same thing, I will go for the cheaper option.

Mr. BRALEY. Mr. Walker.

Mr. WALKER. I have never been able to consider insuring a family of four. It has always been too expensive. But I think for an individual employee, we crunched these numbers last week, and it came to just below 5 percent. So at 8 percent for a family of four, that is a much better option, no doubt.

Mr. BRALEY. Dr. Blumberg.

Ms. BLUMBERG. Well, our analysis has showed that there are some advantages for many small employers to being able to use the pool and opt to pay a payroll assessment in certain circumstances

as opposed to the premium. And they will obviously choose what is best for them financially.

And just in case you are interested, I was not asked directly, but I have done quite a bit of analysis of association health plans and how they differ from exchanges. And they are really very different. One is oriented towards really broad pooling of health care risk, which is what you get under the exchanges laid out in H.R. 3200, whereas association health plans are really oriented towards further segmentation of health care risk, allowing the healthier firms to band together to avoid sharing in the costs of the higher-cost small firms.

Mr. BRALEY. Thank you.

Mr. STUPAK. Mr. Gingrey, I think you had one more question you wanted to ask?

Dr. GINGREY. Mr. Chairman, thank you. I want to make a couple of comments as just sort of a follow-on to what my good friend from Iowa, Mr. Braley, just said.

No question about it, I think he is right, this paying the 8 percent is a lot cheaper than buying and providing health insurance from the employees. And corporate America, under the provisions of H.R. 3200, will eventually, within 5 years let's say, drop 110 million of their employees who are currently covered by corporate America, and they will let them go right into that exchange.

And if the final bill has a public option, the government—trust me, I am from the government, I am here to help you—Mr. Walker said the three businessmen at the table probably agree that they don't trust the insurance industry, trust the government. They will absolutely crowd out the marketplace for the private insurers, and you will simply have, Mr. Landauer, you definitely then will have Medicare for all, and you will have lack of providers, and you will have rationing of care.

And that is why those of us on this side of the aisle are so concerned with the public option. It is a Trojan horse for a single-payer system. And clearly, because of this 8 percent deal that Mr. Braley just talked about, employers across this country will drop their coverage of their employees like a hot potato. So it is not really a question, Mr. Chairman, but I appreciate you giving me the opportunity.

Mr. Hetrick, you mentioned earlier about the student loan program. And you said, hey, look, this competition between FFELP and the Direct program, this is great, let's let them compete and let's see who offers a better rate for your child so they can go to college and get a college education. Well, the government wanted to compete, but now they have crowded out the FFELP, and it is all Direct loan program as a bill that we just passed, without my vote of course, in the House of Representatives, and there will be no competition. It will be all government.

Same thing with health care. That is my concern. You can comment on that, any one of the four of you, if you would like, if I have got time remaining, Mr. Chairman.

Mr. STUPAK. Dr. Blumberg.

Ms. BLUMBERG. We looked quite a bit at the public plan option, and do not believe that it is going to eradicate private health insurance coverage, even if implemented in the way laid out in the cur-

rent proposal. And in fact, well over 90 percent of the number of Americans currently covered by private insurers we believe would continue to be—would be covered by private insurers under the reform.

We are talking about bringing in a lot more people into the system than are insured today. Many of them would be covered through private plans. And so because you are increasing the total number of coverage, we think roughly 92 percent as many people would be covered by private insurance, even in the presence of the public plan, perhaps higher than that depending upon the rules of getting into the exchange.

In addition, when you think about situations where there has been a public plan competing with private plans, I think one important example to remember is just how badly private insurers did want to compete with the Medicare program, and hence we developed the Medicare Advantage program. Now, those private insurers have actually been quite advantaged by rules under the Federal Government, and in fact have been doing quite well, to the point where they have been providing extra—well over extra benefits than what the Medicare beneficiaries are entitled to, and increasing costs as a consequence.

So we do have examples where we have allowed this kind of competition between private plans and a public health plan, and the privates have sustained themselves and done quite well.

Mr. STUPAK. Very good. Well, let me thank you all for coming. That concludes our questioning. I want to thank you for your testimony and your coming up here to testify in Washington to give us some insight. As you can see, we have differences of opinion on health care, and a long way to go, but hopefully we will get something done for the American people.

Dr. BURGESS. Mr. Chairman.

Mr. STUPAK. Mr. Burgess? That is it, you are cut off, there is the bell. Go ahead.

Dr. BURGESS. I have some additional questions I would like to submit in writing.

Mr. STUPAK. Yes. I was just going to get to that part. The committee rules, as you know, provide that members have 10 days to submit additional questions for the record. And that will be part of—this tradition will be kept. You have 10 days to do so, if you would like to submit additional questions for the record.

Therefore, I ask unanimous consent that the contents of our document binder be entered into the record, provided that the committee staff may redact any information that is business proprietary, relates to privacy concerns, or is law enforcement sensitive. Without objection, documents will be entered in the record.

[The information was unavailable at the time of printing.]

Mr. STUPAK. That concludes our hearing. This meeting of the subcommittee is adjourned.

[Whereupon, at 3:42 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

**OPENING STATEMENT OF THE HONORABLE GREG WALDEN, RANKING  
MEMBER, SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,  
OCTOBER 20, 2009**

Thank you, Chairman Stupak for holding this hearing.

Our economy owes most of its success to the people who will testify before this committee today: Americans who work in a small business. Their prominent place in the American economy makes this hearing today an important one.

Small businesses create jobs. Small businesses create wealth. Surveys have shown that companies with as few as 20 employees are often responsible for a quarter of the country's job growth, and in recent years the vast majority of U.S. firms had fewer than 50 employees. The Members of this body should do everything they can to enact policies that help these businesses grow.

[Walden on his small business experience?]

As Congress continues to review potential reforms for the health care system, we must also find a way to enact new policies and regulations that will help small business owners provide their employees with quality, affordable health care. Since 1999 the average annual cost of a family premium for employer-sponsored health coverage in a small firm has increased over 120%, and this Body has the opportunity to enact reforms to address these skyrocketing costs.

The three small business owners today will testify to a system that offers small businesses few options and increasing costs. They will all testify to the basic problem facing small business owners: with fewer employees, one illness can make health care unaffordable for all.

Bruce Hetrick will testify that his wife's cancer treatment resulted in \$300,000 in health care costs. When it came time to renew his policy, the premium was scheduled to increase nearly thirty percent. His wife passed away a month before the new premium took effect. When the insurance company learned of this, they changed the premium increase to 10%--a practically insulting cold comfort. Mr. Hetrick, I wish to convey my condolences for your loss and thank you for your courage in testifying today.

Fred Walker's business was hit hard by the economic turmoil of the past two years--so much so that in February of this year he had decided to discontinue his company's health care plan. He then learned that an employee had been diagnosed with breast cancer. For Mr. Walker the choice was easy: he continued the health care plan, but saw a 14% increase in his premiums last year, and worries that the next premium increase will be much more substantial. Mr. Walker, I thank you for taking care of your employees and for appearing before this Committee today.



Michael Landauer has been operating Bi-State Muffler and Brake for 30 years. For 30 years he has been able to offer his employees health care, but the costs are now spiraling out of control. In the last two years his deductibles have quadrupled. Next year he plans to remove himself from his own plan because his health care costs are driving up the premiums for his employees. Mr. Landauer, thank you for testifying before this committee.

I note that the title of this hearing is “The high cost of small business health insurance: *limited options*, limited coverage.” It is a sad truth: small business owners have few options when it comes to purchasing health insurance. I recognize that there are ideological differences amongst the Members about how to provide small business owners with more options—but we should not limit ourselves to providing them with *only one more option*, be it a government run health care program or co-operatives. This Congress should consider removing barriers that create in state monopolies amongst insurance companies, and should give small business owners the ability to chose the coverage they want free of mandates for care that require them to purchase services they don’t want or need.

I thank the witnesses again for appearing before this Committee today. Thank you, Chairman Stupak, I yield the balance of my time.

**OPENING STATEMENT OF THE HONORABLE JOE BARTON  
RANKING MEMBER, HOUSE ENERGY AND COMMERCE COMMITTEE  
OCTOBER 20, 2009 O&I HEARING ON SMALL BUSINESS INSURANCE**

Thank you, Chairman Stupak. We on both sides of the aisle believe it is time to reform our health care system. Small business owners who wish to provide their employees with health care should be applauded, and our job should be to make that process easier instead of harder. The current system leaves them with few options that are affordable. And sometimes a small business simply cannot offer insurance and remain in business at the same time.

The most repeated statement in this room today will be that small business owners are the backbone of the American economy. That's because it is true, and that's why we have to find ways that help them help both themselves and their workers.

Today we will hear from three small business owners who have seen the worst that our health care system has to offer: limited options, no choices, soaring costs. I applaud the three of you—Bruce Hetrick, Fred Walker, and Michael Landauer—for testifying before this Committee today. You are not just speaking for yourselves, but for the millions of people across the country who either own or work for a small business. I thank you for coming here to explain the realities to us.

One of my priorities, and it must be especially important for the small business owners before us today, is guaranteeing that the purchasers of insurance know exactly what they are getting for their money. Mr. Green and Mr. Stupak and I have offered an amendment to do that by increasing transparency that would specifically cover insurance companies.

One of the important things we might accomplish today is using this hearing and these witnesses to re-evaluate some of the work we did on HR 3200, because our health care reform bill will do so little to lower the cost of small business health care plans. Members of Congress on both sides of the aisle rush to praise small businesses for what they do to help grow the American economy. We trust them to create jobs. We trust them to create wealth. Why don't we trust them with their health care?

In that context, creating options and choices for small business should be another priority for us. Because of the state-based insurance regime in this country, small businesses everywhere are lucky if they even have *two* options when it comes time to buy their insurance. Some think that requires more taxes being paid by small business for the privilege of being told what to do by an expanding government.

Small businesses exist and prosper because of the good decisions they make in marketplace, and yet it will seem novel to some in Washington that we would turn to individual choice and market forces for a solution to their problems. I, for one, don't doubt that many of these problems are caused by an over-supply of government and an under-supply freedom. That's why I don't want to neglect the potential of a market-based solution to the problems small business owners encounter as we explore their experiences with health care.

I look forward to having that debate as we try to make the health care system affordable and accessible for all Americans.

Thank you again for holding this hearing, Chairman Stupak. I yield the balance of my time.

**STATEMENT OF  
CONGRESSMAN MICHAEL C. BURGESS, M.D.**

**BEFORE THE**

**OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE  
COMMITTEE ON ENERGY AND COMMERCE**

**October 20, 2009**

**“The High Cost of Small Business Health Insurance: Limited Options, Limited Coverage”**

As a former small business owner, I am intimately aware of the consequences of trying to provide health insurance to every employee. It's difficult to balance the costs of coverage with being profitable. In the presidential primaries, Secretary Clinton was lambasted for not providing any health insurance to her primary campaign staff so even exceptionally bright politicians struggle with how much, if any, coverage to provide to their employees.

What's curious about this hearing is that there is neither anyone from the health insurance industry or from the Small Business Administration to talk about the issues as it relates to small business owners providing health insurance. Last week we held a hearing about deceptive insurance policies without state insurance commissioners and this week we are holding a hearing on small businesses without the Small Business Administration. With all due respect to The Urban Institute, they are not the expert on concerns of small businesses. It's the owners and the federal agency who oversees them.

So if the SBA isn't invited, then we should look to the last report the SBA commissioned on the factors affecting health insurance coverage at small firms.

On March 2007, the SBA found that the two factors affecting health insurance coverage at small businesses were wages and size.

Individuals who work at a small firm (or who receive a lower wage) are less likely to have health insurance coverage. Furthermore, workers at firms of 100 to 249 employees spend the most on healthcare expenses.

The way you solve the dilemma small businesses face is not to have Congress give individuals health insurance – or to mandate employers give health – but to reduce the COST of care. If you mandate the purchase of health insurance, how does it make healthcare less expensive? There will always be risk in populations because our bodies are human. We get sick. We get injured. We need medical attention.

Addressing the cost of care will help those, with or without insurance, with a private plan or a public plan like Medicare, get the medical attention they need without facing financial oblivion.

Congress must focus on reducing costs to ensure that every American get the care they need.

Thank you.

# WebMemo



Published by The Heritage Foundation

No. 2556  
July 23, 2009

## House Bill to Hit Small Businesses with Surtax

*Rea S. Hederman, Jr.*

As unemployment continues to rise, it is unfortunate and surprising that many policymakers are taking steps to *reduce* employment. The large tax increases proposed by House Ways and Means Chairman Charlie Rangel (D-NY) would harm over a million small businesses, making them less likely to expand and hire new workers. Congress should not pass large tax increases on businesses that would hinder employment.

**Rangel Surtax Impact.** The surtax is 1 percent for joint filers over \$350,000, 1.5 percent for joint filers over \$500,000, and 5.4 percent for joint filers with over \$1 million in adjusted gross income (\$280,000, \$400,000, and \$800,000 for individuals, respectively). The Joint Tax Committee estimates that the Rangel surtax will raise \$543.9 billion over the next 10 years.<sup>1</sup>

Congress also surrenders its prerogative to make tax policy by letting bureaucrats in the executive branch set future tax rates. If the President's Office of Management and Budget determines that promised savings have not arrived, then the tax rates will go up automatically to 2 percent and 3 percent for those making \$350,000 to \$1 million. Businesses will have a hard time planning for the future with such variable tax rates.

Approximately 2 million tax filers will be hit by the surtax, with the majority of them being joint filers. Sixty percent of these returns report having positive small business or partnership income. Over 400,000 tax filers report that over half of their adjusted gross income is from small business or partnership income. This small share of taxpayers

already pays a disproportionate share of the federal income tax, paying a fourth of the total income tax, despite being less than 1 percent of all tax filers.

The surtax, when combined with the expiration of President Bush's tax cuts and various state and local taxes, lifts the marginal rates on small business to over 50 percent in most states. This is a 10-percentage-point increase in the marginal tax rate and over a 28 percent increase in the top marginal tax rate. The top tax rate is higher than almost all other industrial nations.

"Income shifting" to take advantage of tax rate differences was a common practice until tax reform in 1986, which reduced the financial incentive to shift income or engage in tax shelters. With the Rangel surtax, the top rate on individuals would lead to a difference of over 10 percentage points between the corporate tax rate and the individual tax rate. Many partnerships would then be likely to incorporate, which would increase corporate tax revenue but lower individual income tax revenue.<sup>2</sup>

**Small Businesses' Ability to Create Jobs Will Be Harmed.** Small business is the backbone of the American economy. Half of all private workers in the U.S. are employed in firms with fewer than 500

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Taxes/wm2556.gfm](http://www.heritage.org/Research/Taxes/wm2556.gfm)

Produced by the Center for Data Analysis

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workers.<sup>3</sup> These small firms have also created 60–80 percent of all new jobs in the last decade.<sup>4</sup>

Higher tax rates discourage investment in small business by increasing the hurdle rate for investors—i.e., the cost of a new project that must be exceeded to generate a profitable return on an investment. Higher hurdle rates mean that fewer small businesses will be created and fewer existing businesses will expand.<sup>5</sup>

In addition to the surtax, the House health care bill would force small businesses with at least \$250,000 in payroll to provide health insurance or pay a tax penalty up to 8 percent of payroll. Almost all small businesses and employees would be affected: Over four-fifths of all small businesses employees are in firms with more than nine employees, and almost all firms with 10 or more workers have more than \$250,000 in payroll.

The mandate increases the marginal cost of each additional worker, making it less likely that small businesses will hire new employees or give raises to existing ones in a weak economy. While small businesses will pass on many of the cost increases to employees, employment will be especially harmed in cases where businesses cannot pass on the cost increases to customers or investors.

This tax increase is estimated to be \$163 billion over 10 years and another \$45 billion in payments to health exchanges.<sup>6</sup> This \$208 billion in costs will

be paid through lower wages for existing employees, a reduction in hours worked, and fewer new workers hired.

It is estimated that 32 million employers will offer health insurance as a result of this legislation.<sup>7</sup> This means that 32 million companies will either raise the prices of their goods, reduce wages to maintain the same overall level of compensation, or cut jobs and work hours.

**The Wrong Policy at the Wrong Time.** Small businesses, like all businesses, will be reluctant to hire in an unstable fiscal atmosphere. Businesses will be unable to ascertain if they will face a potential top federal income tax rate of 35 percent, 39.6 percent, or 45 percent. The employer mandate adds to the uncertainty of what their payroll costs could be. These uncertainties, when coupled with the macroeconomic environment, provide reasons for small businesses to delay hiring as long as possible.

The Rangel surtax and the expiration of the Bush tax cuts means that the top marginal rate would increase by over 28 percent in the next two years. Much of this burden will fall on small businesses, which will pass those costs onto consumers, employees, or both. This policy is exactly what the backbone of the American economy needs the least.

—*Rea S. Hederman, Jr.*, is Assistant Director of and a Senior Policy Analyst in the Center for Data Analysis at The Heritage Foundation.

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2. Len Berman, "Alan Reynolds and TPC Corporate Tax Estimates," TaxVox, at [http://taxvox.taxpolicycenter.org/blog\\_archives/2008/11/10/3971379.html](http://taxvox.taxpolicycenter.org/blog_archives/2008/11/10/3971379.html) (July 22, 2009).
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4. Source: U.S. Dept. of Commerce, Bureau of the Census and International Trade Administration; Advocacy-funded research by Kathryn Kobe, 2007 ([www.sba.gov/advo/research/rs299tot.pdf](http://www.sba.gov/advo/research/rs299tot.pdf)) and CHI Research, 2003 ([www.sba.gov/advo/research/rs225tot.pdf](http://www.sba.gov/advo/research/rs225tot.pdf)); Federal Procurement Data System; U.S. Dept. of Labor, Bureau of Labor Statistics.
5. Norbert Michel, "Everyone Profits from Hurdling Dividends," Heritage Foundation WebMemo No. 248, April 3, 2003, at <http://www.heritage.org/Research/Taxes/wm248.cfm>.
6. Congressional Budget Office, "Preliminary Analysis of the Insurance Group Coverage Specifications Provided by the House Tri-Committee Group," July 14, 2009, at [http://cbo.gov/ftpdocs/104xx/doc10430/House\\_Tri-Committee-Rangel.pdf](http://cbo.gov/ftpdocs/104xx/doc10430/House_Tri-Committee-Rangel.pdf) (July 22, 2009).
7. *Ibid.*

**Congress of the United States**  
Washington, DC 20515

July 16, 2009

The Honorable Nancy Pelosi  
Speaker of the House  
US House of Representatives  
H 232, the Capitol  
Washington, D.C. 20515

Dear Speaker Pelosi:

Thank you for your leadership on health care reform. Given our current economic climate with Americans losing jobs and struggling to care for their families, H.R. 3200, America's Affordable Health Choices Act, could not come at a better time. However, we are extremely concerned that the proposed method of paying for healthcare reform within this legislation will negatively impact small businesses.

Small businesses are the backbone of the American economy. They create 60 to 80 percent of new jobs, which is even more important when times are tough. Since January, Democrats have made small business needs a priority, providing \$15 billion in tax relief to small firms and unlocking \$21 billion in new lending and investment for entrepreneurs through the American Recovery and Reinvestment Act. If our nation is going to lift itself out of recession, small businesses will once again need to lead the way.

While the Ways and Means Committee states that the proposed surcharge in H.R. 3200 will only impact 4.1 percent of small businesses, we are concerned that this does not paint a complete picture. According to the Internal Revenue Service's 2002 Statistics of Income, 64 percent of households filing individual tax forms with AGI above \$250,000 filed as an S-Corporation or partnership or filed a Schedule C sole proprietor tax form. Further, of all small businesses, 75 percent are S-Corporations where the business income is passed through to the businesses owners' individual tax return, increasing the chances that it will be impacted by the proposed surcharge.

This proposed surcharge will also have a direct negative impact on manufacturers, another industry essential for our recovery. As manufacturers are capital intensive businesses, their taxable income is often higher (nearly 70 percent of manufacturers that pay at the individual rate have an average taxable income of \$570,000). Manufacturing machinery can cost over \$1 million and many owners have to save for years to expand and buy new equipment. Yet those profits saved each year would be hit by this proposed surcharge, which could lead to reduced investment.

Especially in a recession, we need to make sure not to kill the goose that will lay the golden eggs of our recovery. By concentrating the cost of health care reform in one area, and in one that will negatively affect small businesses, we are concerned that this will discourage

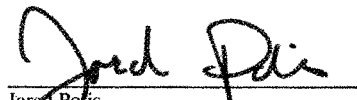


entrepreneurial activity and job growth. Under the existing approved budget, the Bush tax cuts would be allowed to expire, causing the marginal rate paid by wealthy individuals and small businesses to increase by 4.6 percent to 39.6 percent. Further, a surcharge would tax income above \$1 million at a new rate of 45 percent. Combined with state taxes, many successful small businesses -- the very kind of business that should lead in creating new jobs and help us emerge from this recession -- will be taxed at over 50 percent.

Of more concern, the proposed surcharge would put successful family-owned companies and closely held midsize S-Corp businesses at a major tax disadvantage to their larger corporate competitors, which would continue to enjoy the favorable 35 corporate tax rate. Multinational corporations will be paying 35 percent for the same economic activity and profit that a family owned S-Corp would be paying nearly 45 percent federal taxes on.

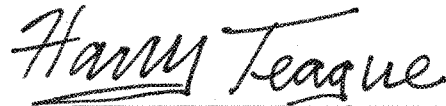
Health care reform should be good for small business, and as long as small businesses are not unfairly burdened by H.R. 3200, we are confident that it can. We believe that any revenues for the health care program should be collected from a larger base than the critical small business sector. We encourage you to seek creative ways to reduce the overall need for revenue generation, and to propose a more equitable way of distributing the burden of any remaining needs to ensure that health care reform is a success for small business, our economy, and the millions of uninsured who stand to benefit.


Yours truly,


  
Jared Polis  
Member of Congress

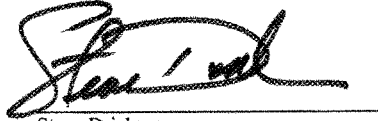
  
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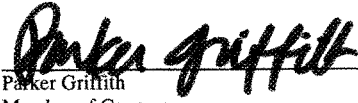
  
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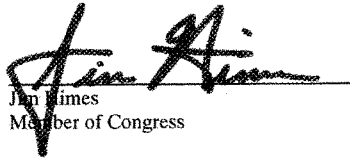
  
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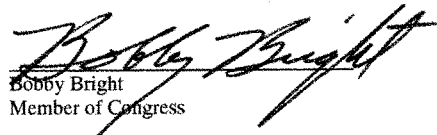
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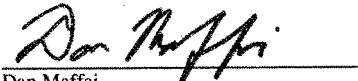
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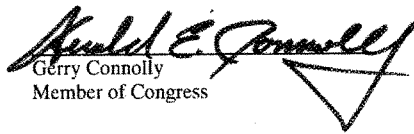
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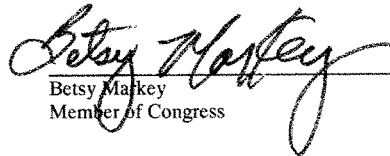
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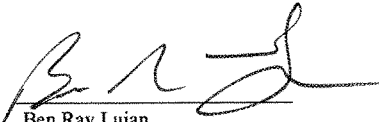
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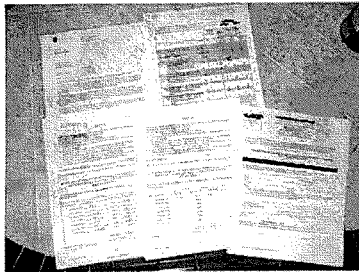
### High-Risk Insurance Pools: A Flawed Model for Reform

By Morgan Mulveon, Karen Davenport, Ellen-Marie Whelan | September 29, 2008

#### In This Issue

- Feature: High-Risk Insurance Pools: A Model for Reform?
- Background Basics
- Interactive Map: High Risk Pools: High Cost, Low Coverage
- Point-Counterpoint: High-Risk Pools Are Not the Solution
- In the News
- The Last Word

#### High-Risk Pools: A Model for Reform?



Source: Flickr/illuc  
An application for the Washington state high-risk insurance pool.

difficult to obtain reasonably priced care. This is because conservative plans often seek to substitute insurance coverage purchased in the individual market for group coverage, such as the insurance that many Americans have through their employers. These proposals also call for expanding existing high-risk pools, such as the Maryland program, to provide coverage for people with chronic illnesses and costly health histories. Today's state-based high-risk pools provide an important coverage option for some individuals, but the coverage is expensive, and it's only available to a small portion of those eligible.

High-risk pools have been around for over 30 years and currently exist in 35 states, but they only cover about 207,000 Americans. The biggest barrier to enrollment is cost. High-risk pools are inevitably expensive because all of the enrollees have medical conditions that could potentially result in costly medical bills, which means the pools cannot spread costs across low-risk and high-risk individuals. Despite attempts to cap premium rates, the coverage is still unaffordable for many. In fact, a recent study found that premiums for high-risk pools are unaffordable for about one-third of eligible individuals. High premiums and high deductibles are often a greater burden on individuals with expensive medical conditions who have already spent large amounts of their income on health care.

Chaim Benamor, 52, is a self-employed renovator who went without health insurance. But last year, he had a mild heart attack. After his illness, he had a \$17,000 hospital bill, \$400 in monthly prescription costs, and a desperate need for insurance. Many commercial carriers rejected him because of his "pre-existing condition," so he turned to the Maryland Health Insurance Plan, one of 35 state programs for high-risk applicants whom no private company is willing to insure. But at an annual premium cost of \$4,752, the plan was more than Benamor could afford on his income of about \$35,000 and loads of medical bills to pay.

And Benamor is not alone in seeking coverage without finding an affordable option. Many individuals with high-cost medical conditions are often denied coverage in the individual market.

Under conservative plans for health care reform, many more Americans with pre-existing conditions would find it even more

Some proponents refer to high-risk pools as “safety nets,” but in reality, the pools do not provide a guarantee of coverage. Most have an exclusion period—some period of time during which an insurer can exclude coverage for certain medical conditions that exist before the insurer issues coverage. These exclusion periods can last anywhere from 90 days to 1 year. Some pools cannot afford to admit more individuals; they either have waiting lists or are completely closed to new enrollees. In the meantime, individuals with costly conditions must go without coverage.

In theory, these pools could provide a viable option for high-cost individuals. In practice, using these pools as a model for nationwide reform would be extremely expensive. Policymakers should consider other approaches to providing affordable, adequate coverage to costly individuals, such as expansion of group coverage options and guaranteed availability of health insurance, known as guaranteed issue in insurance parlance.

### Background Basics

#### What are high-risk pools?

High-risk pools are state-sponsored associations that offer health insurance to the “medically uninsurable,” or individuals who are unable to obtain coverage in the private market due to their medical history. High-risk pools also offer coverage for those who can only find very limited or expensive plans because of pre-existing conditions and, in some states, for individuals who qualify under state health insurance portability provisions. Some of the medical conditions commonly covered under high-risk pools include Alzheimer’s disease, diabetes, cirrhosis of the liver, heart disorders, kidney failure, cancer, Parkinson’s disease, morbid obesity, and stroke.

Currently, 35 states have established high-risk pools. According to the National Association for Comprehensive State Health Insurance Plans, these pools provide coverage for 207,000 Americans. It is estimated, however, that approximately 1 percent of the population under age 65, or about 2.6 million Americans, are considered “medically uninsurable.”

#### What kind of coverage do high-risk pools provide?

Each state creates its own regulations about the benefits, deductibles, and premiums offered under its high-risk pool. Most state pools have pre-existing condition exclusion periods. This waiting period differs, but, on average, an individual must wait 6 months before their high-risk pool plan will begin covering their pre-existing condition.

This waiting period can have consequences both in cost and for health. In one case, Thomas, a 35-year-old married father of three, was diagnosed with testicular cancer in March 2004. At the time, he was insured and able to get the appropriate care to successfully treat his cancer with surgery and radiation. During his remission, Thomas started his own business and lost his previous coverage. When he went for necessary follow-up care to ensure his cancer remained in remission he learned it would cost him more than \$2,500. Since his remission, Thomas tried to get health insurance, but because of his cancer history, he was denied. Thomas was eligible for his state high-risk pool; however, the 12 month pre-existing exclusion period meant he would not be able to get his follow-up care for a year—the whole reason he needed the high-risk pool plan in the first place.

While high-risk pools cover most standard benefits, some pools limit or exclude certain types of care, like mental health and maternity care. For example, Louisiana completely excludes mental health care, and Mississippi’s pool does not cover maternity benefits. Although many individuals with pre-existing conditions amass high medical bills, some state pools limit the amount of benefits that enrollees can claim. California, for example, caps annual benefits at \$75,000 and lifetime benefits at \$750,000. In comparison, only 1 percent of employer-sponsored insurance plans have lifetime limits of \$1 million or less.

#### What do high-risk pools cost?

High-risk pools are expected to be expensive. In a standard pool, the healthier members, or “risks” subsidize the unhealthy ones. High-risk pools, however, are only composed of “unhealthy risks.” In order to pay for these individuals’ expensive medical care the premiums charged in high-risk pools are higher than those charged for coverage of healthy individuals in the individual market.

High-risk pool premium rates are capped between 125 percent and 200 percent of standard market rates, but many individuals still find them unaffordable. In 2006, the median premium for a \$1,000 deductible plan was \$620 a month or \$7,440 a year, and only 13 states offer premium subsidies to low-income individuals. Enrollee cost-sharing can also push up the total cost of high-

Even though state high-risk pools charge high premiums and high deductibles, the pools are not self-sufficient. They operate at loss, and states still must draw funding from additional sources. Some states collect funds through assessments on health insurance companies, some use state funds, and others use a combination of available state and federal resources. According to the Kaiser Family Foundation, the total cost of all high-risk pools in 2006 was over \$1.7 billion, and high-risk pools needed over \$719 million in subsidies.

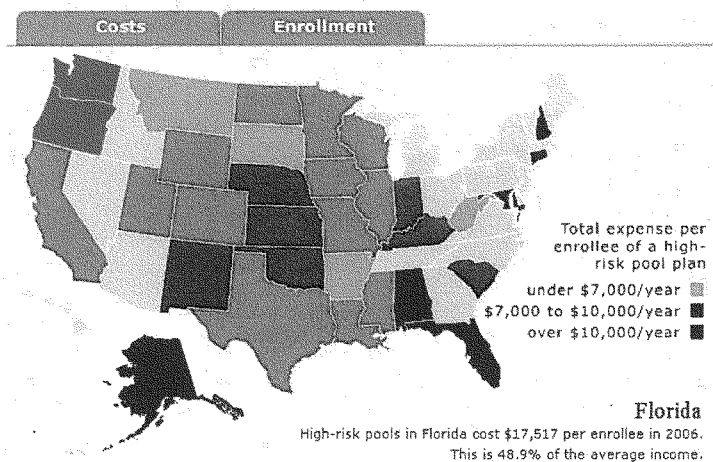
**For additional reading:**

- Deborah Chollet, "Perspective: Expanding Individual Health Insurance Coverage: Are High-Risk Pools The Answer?" *Health Affairs*, Web Exclusive, October 23, 2002, <http://content.healthaffairs.org/cgi/content/short/hlthaff.w2.349v1>
- Bernadette Fernandez, "Health Insurance: State High Risk Pools," Congressional Research Service Report to Congress, May 9, 2008, <http://www.cahc.net/documents/RL31745.pdf>
- Karen Pollitz and Eliza Bangit, "Federal Aid to State High-Risk Pools: Promoting Health Insurance Coverage or Providing Fiscal Relief?" *The Commonwealth Fund*, Issue Brief, November 2005, [http://www.commonwealthfund.org/usr\\_doc/Pollitz\\_highriskpools\\_875.pdf?section=4039](http://www.commonwealthfund.org/usr_doc/Pollitz_highriskpools_875.pdf?section=4039)
- Families USA, "High-Risk Health Insurance Pools," Issue Brief, May 2006, <http://www.familiesusa.org/assets/pdfs/High-Risk Pools-May-2006.pdf>

**Interactive Map: High Cost, Low Coverage**

**High-Risk Pools: High Cost, Low Coverage**

Click on a state below to see more detailed data about high-risk pools in each state. Gray states do not have high risk pools.



**Point-Counterpoint: High-Risk Pools Are Not the Solution**

POINT	COUNTERPOINT	THE BOTTOM LINE
High-risk pools support the existence of a competitive and affordable individual insurance market.	High-risk pools have a limited ability to make insurance accessible and affordable to those deemed "uninsurable."	Removing high-risk individuals from the standard individual market is not the answer to creating affordable coverage for all. Instead, it is vital that risk is balanced across a diverse group of enrollees.
Very few individuals are ever denied insurance in the first place.	The chance of being denied insurance coverage or being charged high rates is very real.	Regardless of the magnitude of eligible participants, high-risk pools are not an adequate safety net. With exclusion periods, high premiums, and waiting lists, there is no guarantee that those who desperately need health care will actually receive coverage.
The cost of funding state high-risk pools is small in relation to its "safety net access guarantee."	It would cost countless billions of dollars to adequately cover the nation's most costly individuals with high-risk pools.	Subsidies already cover around 50 percent of high-risk pool costs, and expansion of these programs could cost \$100 billion. Other, more efficient reform options should be explored.

### In the News

- The New York Times examines the expansion of high-risk pools as an option for national health reform and the potential costs of such a plan. [Read the article here.](#)
- After the Centers for Medicare and Medicaid Services announced its high-risk pool grant awards for 2008, *Florida Health News* discusses Florida's state pool and its failure to obtain federal funding. [Read more here.](#)
- A *USA Today* article details the difficulties of obtaining coverage in the individual insurance market, especially for those with pre-existing medical conditions. [Read it here.](#)
- The Washington Post looks at the recent development of health "credit reports." Commercial databases of consumer's prescription drug usage have been created to help insurance companies decide to whom they will offer coverage. Some cite privacy and accuracy concerns about such databases. [Read more here.](#)

### The Last Word

"...In every state that covers the uninsurable with their high-risk pool or offers coverage to the uninsurable, the very condition that made you uninsurable will be excluded as a pre-existing condition, usually for 6 to 12 months. That is a conversation stopper for most people. If you have been diagnosed with cancer, you cannot wait six months to start treatment."— Karen Pollitz, Health Policy Institute, Georgetown University

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November 20, 2009

The Honorable Michael C. Burgess  
Congress of the United States  
House of Representatives  
Committee on Energy and Commerce  
2125 Rayburn House Office Building  
Washington, DC 20515-6115

Dear Congressman Burgess:

Attached, please find the answers to the questions that you sent regarding my testimony before the Subcommittee on Oversight and Investigations on October 20, 2009, at the hearing entitled "The Hight Cost of Small Business Health Insurance: Limited Options, Limited Coverage."

Sincerely,

Linda J. Blumberg

**1. In your testimony, you state the “significant reforms” must occur in the small group health function, what are three reforms that you recommend?**

In the answer below, I’m assuming that the question was intended to ask which reforms I think are necessary in order to improve the ability of small employers and their workers to obtain health insurance coverage. If that is incorrect, please let me know and I will respond to the intended question.

The barriers to coverage facing small employers and their workers can be grouped into 3 general categories: high administrative costs of purchasing coverage; limited ability to spread health care risk; and a lower wage workforce.

The first two issues (administrative costs and limited risk sharing) go into making insurance coverage purchased by small employers more expensive for the same benefits than coverage purchased by large employers. Because selling insurance small group by small group incurs high marketing costs and these costs are built into the administrative cost component of premiums, small employers are charged significantly more for identical coverage than a large employer, even if the small firm’s workforce is perfectly healthy. The price differential by firm size is exacerbated, however, because small firms have fewer individuals over which to spread their health costs. As a consequence, even one high medical cost enrollee can at times send average costs for the firm soaring, and this can lead to very high premiums and considerable year to year variation in premiums that discourage many from purchasing.

Both the administrative cost and risk sharing issues can be addressed through a combination of insurance market reforms and the use of health insurance exchanges. Market reforms, which prohibit premium variations for small groups based upon the health status/health experience of their workforce, would reduce the year to year variations considerably and allow higher need firms to share the costs associated with less healthy workers across all those purchasing coverage, making coverage more affordable. Health insurance exchanges would help implement the rating reforms and provide additional oversight to ensure enforcement, and would also likely reduce the administrative costs associated with small firm purchasing of insurance. Currently there is tremendous turnover in small group coverage due to the large swings in premiums for this market and the administrative costs associated with such churning would drop with broader risk spreading. Prohibiting insurance underwriting would also reduce administrative costs, as would centralized marketing functions within the exchange.

The third issue is that workers in small firms tend to be lower wage than workers in large firms. As a consequence, it is significantly more difficult for employers to pass the costs of health insurance on to their workers through reduced wages, and it is more difficult for workers to afford their share of the health insurance premium. As a result, significant coverage expansions for many workers in small firms would require government subsidies to make coverage more affordable. Such subsidies could also be administered through the health insurance exchange.

**2. In your testimony, you state that those who employ less than 10 people give health insurance only 40% of the time. Do small businesses with less than 10 employees get a**

**tax break? What is the amount?**

As is the case with all employers regardless of size, contributions to employer-based health insurance are not treated as taxable income to the workers. This is a tax advantage that accrues to the workers, as they receive health insurance as a tax-free form of compensation. From the employers' perspective, health insurance contributions are treated in the same way as wages – a cost of production. There is no specific tax subsidy to employers associated with health insurance, making employers theoretically financially neutral between offering health insurance or higher wages to their workers.

**3. In your testimony, you state that those who employ more than 1,000 people give health insurance 98% of the time. Do these businesses get a tax break? How much?**

See answer to 2, above.

**4. How many small businesses do not give health insurance because it costs too much?**

It is not possible to identify the number of employers not offering coverage by a single reason. However, past surveys have shown that nearly 100% of those not offering insurance reported premiums being too high as an important reason for not offering. Other reasons include: they feared having to take the benefit away in the future, their profits being too uncertain, premium increases being uncertain, that they didn't need to provide coverage to attract workers, their workers preferred higher wages, many workers covered through a spouse's employer, administrative hassles of obtaining coverage, and high worker turnover.

**5. Should employers have their coverage based on population risk as opposed to number of individuals requiring coverage?**

Ideally, premiums would be based on as broad a population risk pool as possible. In this way, a firm deciding to offer coverage would not be disadvantaged by their own health care risk or the risk of the other small firms voluntarily deciding to provide coverage. In order to accomplish this, however, either close to the full population must have coverage and premiums determined across the insured population (as is possible with an individual mandate), or there must be some government financing devoted to the subsidization of the health care risk of those voluntarily deciding to obtain coverage. In the latter approach, broad based general revenues could be used to ensure that all taxpayers (regardless of insurance status) would contribute to the costs of providing coverage to those with above average health care needs.

**6. In your testimony you state that "70 percent of all uninsured workers have no access to an employer-based insurance plan (either their own or through a family member). What is your source? How many were in the control group of your source?"**

The source is the most recent supplement to the Current Population Survey which asks questions regarding worker offers of coverage through employers. An analysis of this data is described in: "Changes in Employer-Sponsored Health Insurance Sponsorship, Eligibility, and Participation: 2001 to 2005.

available at: [http://www.urban.org/UploadedPDF/411619\\_health\\_insurance.pdf](http://www.urban.org/UploadedPDF/411619_health_insurance.pdf)

See page 34, figure 24. Similar results could be obtained using the Medical Expenditure Panel Survey, which is another nationally representative survey that collects data on health insurance coverage and employer offer.

I do not know what you mean by control group – these estimates are based on tabulations from a large nationally representative data set. They do not come from an analysis that would employ a control group. The survey asks whether individuals have access to an employer offer of coverage and the percentages are calculated directly from the data.

- 7. You state in your testimony that one of the reasons why individuals who “wish to start their own business” may be “hampered” from doing so is “because of the difficulty and costs associated with obtaining insurance coverage as a small business owner.” Is this your opinion or do you have a source? How many individuals don’t start a small business because of the costs of giving health insurance?**

This is my opinion, based upon my understanding of the difficulties inherent in small group and non-group health insurance markets. I know of no surveys that have identified potential business owners and asked them whether health insurance was a barrier to their starting a business; it would certainly be difficult to identify the appropriate individuals to survey. However, the barriers to affordable small group and non-group coverage and the decline in small group coverage over time certainly would make health insurance coverage a concern for anyone considering leaving an employer group plan; I don’t believe there is any controversy about that.

- 8. You state in your testimony that H.R. 3200 would give “significant assistance as it relates to health insurance coverage for small businesses and their workers.” HOW?? How much money would it save small businesses? How many workers would get coverage? Is this your opinion or do you have a source?**

By prohibiting premium rating based upon health status, developing health insurance exchanges accessible to small employers and workers without employer health insurance offers, and providing financial assistance to low wage workers in the purchase of insurance, H.R. 3200 (and H.R. 3962) would provide significant advantages to small employers and their workers. See my answer to 1., above. In addition to my analytic understanding of the problems facing small employers and their workers, The Urban Institute’s Health Policy Center has analyzed the House bills using our microsimulation model, HIPSM (Health Insurance Policy Simulation Model). Our simulations indicate that the bills would both increase the rate of offer among small employers and significantly increase insurance coverage among small firm workers and their dependents.

According to currently unpublished results from HIPSM, H.R. 3962, if fully implemented in 2009, would reduce the number of uninsured workers in small firms (fewer than 50 workers) by 10.1 million people, from a current law 2009 total of 12.8 million people, a reduction in the small firm working uninsured of 79%. If we look at all family members in health insurance units<sup>1</sup> that

<sup>1</sup>A health insurance unit includes all those individuals in a family that generally can purchase a health insurance

include at least one small firm worker, HIPSM estimates that the number of uninsured in that group would fall by 13.1 million people under H.R. 3962, from a current law total of 18.2 million uninsured, a reduction in the uninsured from small firm families of 72%.

We also estimate that for those small employers currently providing coverage to their workers, the average employer cost per policy holder (averaged over single and family policyholders) would fall by approximately \$377 under H.R. 3962 or 10%, due to the administrative and risk pooling savings of providing coverage through the exchange and in the context of the insurance market reforms. For example, a currently offering small firm with 25 covered workers that continued to coverage post-reform would, on average, save about \$9400 per year (2009 dollars) due to H.R. 3962. The cost saving to employers may well be larger on average, since administrative savings due to reduced churning (year to year changes in small group insurance carriers) which is very high today have not been taken into account in this estimate. Nor does this estimate take into account savings in time hassles for small employers in shopping for insurance coverage.

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policy together, i.e., spouses, dependent children, and full-time students up to age 23.

