



STATEMENT FOR THE RECORD  
BEFORE  
HOUSE COMMITTEE ON EDUCATION AND LABOR

ON

THE TRI-COMMITTEE DRAFT PROPOSAL  
FOR HEALTHCARE REFORM

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SMALL BUSINESS MAJORITY

Good afternoon Chairman Miller, Ranking Member Kline and members of the committee. Small Business Majority appreciates the opportunity to present the small business perspective on the draft healthcare reform plan being considered by the House Education and Labor Committee. We support the effort to move this legislation through Congress expeditiously, and thank you, along with the leadership of both the Ways and Means and Energy and Commerce committees, for bringing a proposal forward for discussion in such a timely manner.

Small Business Majority is a nonprofit, nonpartisan organization founded and run by small business owners and focused on solving the biggest problem facing small businesses today: the skyrocketing cost of healthcare. We represent the 27 million Americans who are self-employed or own businesses of up to 100 employees. Our organization uses scientific research to understand and represent the interests of all small businesses.

I have been an entrepreneur for more than 20 years, including 12 years owning and managing an Internet communications company specializing in financial services. Together with two other senior managers in our organization, we have a total of 70 years running successful small businesses ranging from high-tech to food production to retail.

We are pleased to be here today to support comprehensive healthcare reform that will reduce the costs of insurance and medical care, while making coverage affordable, fair and accessible. Our research shows that comprehensive health insurance reform is small business owners' number one need, and controlling costs is essential to ensuring our ability to obtain high-quality, affordable healthcare for ourselves, our families and our employees.

My testimony will highlight the issues of most interest to small businesses. I'll discuss what we have learned from our scientific research about both the opinions of small business owners and the projected economic impact of various reform options—and the impact of failing to act. The points I'll be making include:

- Our research shows that small business owners want and need reform now. The high cost of healthcare is killing us.
- Small businesses are willing to be part of the solution.
- A properly designed shared responsibility reform model will significantly help small businesses, according to an economic study we commissioned from M.I.T. economist Jonathan Gruber
- The committees' discussion draft addresses many of the necessary elements in comprehensive reform, particularly controlling costs, creating a robust exchange, instituting insurance market reforms and establishing a workable system of shared responsibility that takes into account the needs of the smallest businesses.
- We look forward to working with the committees to ensure that their recommendations on small business obligations, exemptions and tax credits are most helpful to small businesses and are consistent with our ability to pay.
- The tax rules for purchase of health insurance by the self-employed must be brought in line with those of all other businesses.

## Healthcare Costs are Killing Small Business and Sapping Our Economic Vitality

National surveys of small business owners consistently show that the cost of health insurance is our biggest overall problem. In fact, the crushing costs of healthcare outranked fuel and energy costs and the weak economy for 78% of small business people polled by the Robert Wood Johnson Foundation in 2008.<sup>1</sup>

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

We hear stories every day from small business owners who can't get coverage because they've been sick in the past or the health plans they are offered are outrageously priced. Louise Hardaway, a would-be entrepreneur in the pharmaceutical products industry in Nashville, had to give up on starting her own business after just a few months because she couldn't get decent coverage—one company quoted her a \$13,000 monthly premium.

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

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

Many small businesses are forced to drop coverage altogether. According to the Kaiser Family Foundation, among firms with 3 to 9 workers, the percentage that offers insurance dropped from 57% in 2000 to 49% in 2008.<sup>3</sup>

This makes small business employees a significant portion of the uninsured population. Of the 45 million Americans without health insurance in 2007, nearly 23 million were small

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<sup>1</sup> "Study shows small business owners support health reform," Robert Wood Johnson Foundation, 2008.

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

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

business owners, employees or their dependents, according to Employee Benefit Research Institute estimates.<sup>4</sup>

Our scientific research reinforces what we hear anecdotally every day: High healthcare costs are putting enormous pressure on small business owners. We have just completed a series of telephone surveys of a scientific sample of small business owners in 16 states. The staggering cost of health coverage is reflected in some of the key findings:

- An average of 72% say they are struggling to afford health insurance;
- An average of 69% overall say reform is necessary to save the economy;
- and when asked about the most important goals for healthcare reform, the top choice is most often “control costs.”

Finally, if we don't get control of the healthcare crisis facing small businesses, we will impede our overall economic growth. Small businesses under 100 employees employ 42% of American workers.<sup>5</sup> Traditionally, small businesses lead the way out of recessions. Addressing this crisis is essential to our vitality as a nation.

### **Cost Containment Comes First**

We have sponsored research that actually models what would happen to small business without comprehensive reform, contrasted with three different levels of support to small business. The research underlying this report, made public earlier this month, was conducted for Small Business Majority by Jonathan Gruber, noted economist at the Massachusetts Institute of Technology. Dr. Gruber's research found that without reform, the continued rising cost of healthcare coverage will cost small businesses \$2.4 trillion over the next ten years.<sup>6</sup>

We need to slow the growth of overall healthcare costs to make coverage affordable and to improve the competitiveness of small businesses. The key to cost containment is to create a marketplace where there is healthy competition among insurers, which would create incentives to lower costs by increasing price competition. Specific actions that are likely to have the most impact include expanded use of health IT, research about what works in medicine, transparency and public reporting of costs and quality, incentives for expanded use of preventive services, primary care and effective management of chronic conditions, malpractice reform, and reduction in waste, fraud and abuse. We are pleased to see that the House discussion draft addresses many of these approaches.

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

<sup>5</sup> U.S. Bureau of Census, 2006 County Business Patterns

<sup>6</sup> The Economic Impact of Healthcare Reform on Small Business, Small Business Majority; available at [www.smallbusinessmajority.org](http://www.smallbusinessmajority.org)

## **A Robust Exchange Coupled with Insurance Market Reforms is Essential**

We believe that it is essential to have an insurance exchange that is well-designed and robust. A broad, well-functioning marketplace offering consistency, fairness and healthy competition will vastly improve the availability and affordability of coverage to small businesses and the self-employed. Indeed, our recent opinion research shows that 80% of small business owners in those states surveyed support a health insurance pool to create a marketplace where small businesses and individuals choose their coverage.

The current insurance marketplace is broken, particularly for small businesses, which cannot access plans with favorable rates because of their small size. Kaiser Family Foundation research shows that insurers' administrative costs are 18% higher for individual and small business health plans than for large groups. Those costs are passed along in higher premiums.

We are very pleased that the committees' discussion draft would establish a national insurance marketplace for individuals and businesses to comparison shop for coverage. It is good policy for states to establish state or regional exchanges that adhere to the national rules to ensure maximum flexibility and incorporation of particular local needs.

Moreover, we are encouraged by the committees' proposal that there be standardized benefit packages to make it easier to make informed choices on cost and quality, along with guaranteed availability of coverage, no exclusions for preexisting health conditions, health insurance rating rules that prohibit adjustments for health status, a cap on premiums and out-of-pocket spending, marketplace transparency, and affordability credits to ensure that small business employees and others can actually participate without financial hardship.

To be financially successful, the exchange must ensure that it avoids adverse selection. Requirements that individuals and businesses purchase insurance, accompanied by guarantees of affordability, will help provide a wide, diverse base for the exchange. It is vital that the ultimate design of the exchange include as broad a group as possible and potentially include incentives for people to buy into it. To create stability it is important that the exchange can grow in strength as quickly as possible, taking into account the need to ensure a smooth transition.

For small businesses, this kind of exchange will go far in reducing the chaos and decreasing the administrative burden involved in choosing and maintaining health insurance both for business owners and for their employees if they offer coverage.

## **Healthcare Reform Based on Shared Responsibility Benefits Small Business**

Small business owners understand that a balanced set of comprehensive reforms will require everyone to participate. 66% of small business owners responding to our recent state surveys support the idea that the responsibility for financing a more affordable healthcare system should be shared among individuals, employers, insurance companies, providers and

government. It should be noted that respondents to our surveys included an average of 20% more Republicans (40%) than Democrats (22%), while 28% identified as independent.

According to the results of our economic modeling, comprehensive reform that includes even modest cost containment measures and a well-designed structure for employer responsibility will offer a vast improvement over the status quo and spiraling future costs for small businesses. A system requiring an employer contribution, with appropriate levels of tax credits, sliding scales and exclusions, will give small businesses the relief they need, potentially saving as much as \$855 billion over the next 10 years, reducing lost wages by up to \$339 billion and minimizing job losses by 72%.

The committees' discussion draft proposes an employer requirement to provide health insurance to workers. As shown by our research, this framework is workable, and, if properly designed, can produce substantial benefits for small businesses. Our modeling of the most successful reform scenarios presumes an exemption for the smallest businesses, a sliding scale of obligations based upon the size of payroll or the number of employees up to 6.5% of payroll and tax credits of 50% of health costs for employees earning under \$100,000 at businesses with fewer than 50 employees. We are very pleased that the committees have addressed many of the affordability concerns of the smallest businesses, and we look forward to working with you to ensure the best balance between benefit to small businesses and our ability to pay.

### **Tax Equity for the Self-Employed**

Finally, another issue of great concern to us is the unfair tax treatment of the 21 million self-employed people in this country. Under the current tax code, self-employed individuals are unable to deduct premiums as a business expense and are required to pay an additional 15.3% self-employment tax on their healthcare costs. These business owners are at a significant tax disadvantage to larger businesses, which do not pay payroll taxes on the health insurance they provide employees. It is one of many barriers these Americans face in trying to access affordable health insurance for themselves and their families.

The self-employed should be allowed to fully deduct their health insurance premiums for the purposes of their income tax and self-employment tax. We encourage the addition of this provision in the final bill passed by the committees.

### **Conclusion**

When Chairman Miller announced this historic bill, six months in the making, he noted that healthcare premiums had spiraled out of control, "placing our fiscal future in peril." We agree. Healthcare reform is not an ideological issue—it's an economic one. Small business owners know this, which is why they overwhelmingly support a comprehensive solution to reforming the way we pay for healthcare. We are encouraged by the overall approach of this bill and look forward to working with you to make it a reality this year.