



February 6, 2009

The Honorable Nydia Velazquez  
Chair  
United States House of Representatives  
Committee on Small Business  
2361 Rayburn Office Building  
United States House of Representatives  
Washington, D.C. 20515

Dear Chair Velazquez:

On behalf of the National Small Business Association (NSBA), the nation's oldest nonpartisan small business advocacy group reaching more than 150,000 small businesses nationwide, I am writing to provide comments on the committee's February 4 hearing, "Health Care Reform in a Struggling Economy: What's on the Horizon for Small Business?"

In attempting to create positive health care reform for small businesses several years ago, NSBA quickly realized that small business problems cannot be solved in isolation from the rest of the system. Therefore, in 2004, the small business leaders that make up NSBA worked with health policy experts in the development of NSBA's principles for health care reform, "A Long-Term Solution for All." While there are many proposals that address the challenges of our health care system, NSBA has advocated that a broad, comprehensive reform is the only real answer.

With respect to the current economic challenges and pending economic stimulus legislation, consideration of health care reform seems to be on the back burner. While providing stimulus to our nation's crippled economy is of the utmost importance for small business, we must not turn complacent on meeting the health care needs of small business employers and their employees and dependents. Moreover, there is an overwhelming connection between the economic and healthcare challenges facing small business. According to a recent report by The New America Foundation, *The Cost of Doing Nothing*, our economy lost as much as \$207 billion in 2007 because of the lack of significant reforms to our health care system. In addition, the report suggests that health care costs resulting from increasing premiums, poor value and diminishing coverage by employers will produce unprecedented challenges to our nation's economy.

NSBA was pleased to hear the Chair and Ranking Member express concern with mandating employers to provide or contribute towards health insurance policies on behalf of their employees. We share your concern and have advocated against mandated 'pay or play' provisions in any health care reform proposal. According to NSBA's 2008 Survey of Small and Mid-Sized Business, only 38 percent of respondents—nearly 90 percent of whom employ less than 19 workers—offer their employees health insurance. Despite the low-rate of offering health insurance, 69 percent of respondents rated health insurance as the top benefit they want to offer. Instead, double digit yearly increases in premiums have forced small

businesses owners to make hard decisions about the future of their business. Mandates on small business to provide health insurance do not make health care more affordable. In order for small business employers to provide insurance, policymakers must address the overall costs of health care.

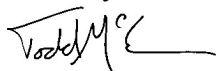
Although mandating a 'pay or play' provision may not impact larger businesses that can already afford to offer health care to their employees, small business would be forced to make extremely difficult decisions to absorb the financial blow during the current economy. The unfortunate reality that small businesses are facing during this tough economy were eloquently depicted in a February 3 New York Times article, "Small Payroll, but Big Woes on Insurance," that suggests small employers are running out of options when trying to balance their employee's needs with the livelihood of their businesses. The combination of record annual increases in health costs and an economic recession are forcing small employers to choose between reducing or eliminating benefits or employees in order to sustain their businesses. Now is not the time to add additional costs or burdens on small businesses by mandating their participation in a 'pay or play' scheme for health insurance.

What is of additional concern to small business in regard to the current economic crisis is that self-employed individuals, unlike large corporations, cannot deduct the cost of their health insurance as a business expense. In particular, self-employed individuals must pay a 15.3 percent FICA payroll tax (12.4 percent for Social Security and 2.9 percent for Medicare) on their employer-provided health insurance costs to which nobody else is subjected. The self-employed pay an average of \$12,106 per year for health insurance. Because they cannot deduct this as an ordinary business expense, the 15.3 percent payroll tax they alone pay on their premiums amounts to \$1,852.22 in extra tax that only the self-employed pay. This is money that could be used to reinvest and grow the business, hire part-time help or cover the ever-increasing costs of health insurance. This additional 15.3 percent tax makes already disturbingly high-priced health care cost even more by adding thousands of dollars to the cost of an individual's health care. NSBA supports measures to allow the self-employed to fully deduct their health insurance premiums on their income tax and their self-employment tax

The small business community needs substantial relief from escalating health insurance premiums. Mandated 'pay or play' provisions will only exacerbate the economic and healthcare problems our nation's small businesses currently face. Eliminating the self-employment tax on healthcare is a step in the right direction. However, real relief can only be achieved through a broad reform of the health care system with a goal of universal coverage, focus on individual responsibility and empowerment, the creation of the right market-based incentives, and a relentless focus on improving quality while driving out unnecessary, wasteful, and harmful care.

We look forward to continuing the discussion on reforming our nation's health care system to provide for affordable, accessible and quality health care for small-business owners and their employees.

Sincerely,



Todd O. McCracken  
President