



March 7, 2011

The Honorable Phil Roe  
Chairman  
Subcommittee on Health, Employment,  
Labor, and Pensions  
U.S. House of Representatives  
2181 Rayburn House Office Building  
Washington, D.C. 20515

The Honorable Rob Andrews  
Ranking Member  
Subcommittee on Health, Employment,  
Labor, and Pensions  
U.S. House of Representatives  
2181 Rayburn House Office Building  
Washington, D.C. 20515

Dear Chairman Roe and Ranking Member Andrews:

On behalf of the National Small Business Association (NSBA), I am pleased to submit the following comments in preparation for the Education and the Workforce Committee's March 10 hearing titled, "The Pressure of Rising Costs on Employer Provided Health Care."

NSBA is the nation's oldest small-business advocacy group representing employers in every state. As a strictly non-partisan organization, we reach more than 150,000 small businesses representing all sectors and industries of the U.S. economy from retail to trade to technology—our members are as diverse as the economy which they fuel. The Committee's upcoming hearing is timely and addresses a perennial concern for NSBA's small business members: rising health insurance costs. We hope the following recent survey data and attached issue brief on health care provide some perspective on the challenges small businesses face in providing quality, affordable health insurance for themselves, their employees, and their families.

Unsustainable increases in the cost of health care and the subsequent untenable increases of health insurance premiums have made health insurance unaffordable for many small businesses. From 1999-2010, health insurance premiums have had a cumulative increase of more than three times that of cumulative wages (138 percent to 42 percent, respectively). Health insurance premiums for individuals and families have more than doubled during the same time period. As a result, the percentages of small businesses that offer coverage have diminished and the amount paid towards coverage by both employers and employees has increased. Clearly these trends are unsustainable for both employers' ability to offer health insurance coverage and employees' ability to afford what is being offered. Unfortunately, the recent health care law has not provided any assurances to ease small-owners concerns with rising health care costs.

According to NSBA's 2010 Year-End Economic Report, nearly a year since the passage of the health care reform law, more small-business owners today express confusion over the new law than did just six months ago. Today, only 15 percent of small businesses—down from 21 percent—said they have a clear understanding of how the new law will impact their business. Meanwhile, 85 percent today said they have a limited or no understanding at all of how their business will be impacted, up from 79 percent in July 2010.

The small business tax credit is said to ease the burden of health costs until other reforms are implemented in 2014 and beyond. When asked—if their business is eligible for the small-business health care tax credit—how much the credit will help their business, the most common response (43 percent) was that they weren't sure if they qualify. Twenty percent responded that they don't qualify and the remaining 37 percent reported mixed levels of assistance from the credit. Among those that said they are eligible, only three percent said the credit will help their business significantly, six percent said it will help moderately, 11 percent said it will help just a little and 17 percent said it will not help at all.

Unfortunately, regardless of the health care reform law, small businesses continue to report dire consequences of rising health insurance costs. When asked how the cost of their health insurance had changed since the law passed, 46 percent reported increases of more than 11 percent, among those, 18 percent experienced an increase in excess of 20 percent. That means nearly one in five businesses in this economy had to absorb a 20 percent increase in one of their most significant employee benefit costs.

To address these costs, small businesses have been forced to implement the following changes: 55 percent increased the deductible, 45 percent held off on employee compensation increases, 42 percent increased the employee share of the premium, 37 percent reduced employee benefits, 25 percent switched insurance carriers, 24 percent held off on hiring a new employee, and 18 percent held off on implementing new growth strategies.

In response to small businesses' decade-long health insurance woes, NSBA has advocated for a broad reform proposal developed in 2003 that seeks to: achieve universal coverage; focus on individual responsibility and empowerment; create the right market-based incentives; and, focus on improving quality while driving out unnecessary, wasteful, and harmful care. The goal of this proposal is to first lower the cost of health care and improve quality, which would then lead to greater access to quality, affordable health insurance to more individuals, small businesses, their employees and their families.

However, despite the extraordinary need of small businesses for health care reform, NSBA opposed the *Patient Protection and Affordable Care Act* [PPACA, P.L. 111-148], as amended by the *Health Care and Education Reconciliation Act of 2010* [HCERA, P.L. 111-152]. NSBA's members believe the new law will place tremendous new pressures on small businesses to both offer and pay for employee health insurance, starting in the earliest stages of reform. However, the provider-level reforms that could contain costs and enable small businesses to afford this commitment will not be fully effective for many years—if at all. We justifiably expect that small companies caught between these twin pressures will see their ability to grow, prosper, and create jobs greatly diminished.

However, the flaws of PPACA do not obviate the ongoing small-business need for health care reform and cost containment. Thus, while NSBA supported the *Repealing the Job-Killing Health Care Law Act* (H.R. 2), it was done only with the understanding that replacement legislation would come forth that places health care cost reduction and containment initiatives paramount.

For these reasons, NSBA also supported H. Res 9, which instructs House committees with jurisdiction over health care issues to report legislation that will ameliorate the shortcomings of PPACA. NSBA strongly believes that the key to meaningful health care reform is to first address the unsustainable growth in health care costs paid by employers and consumers. In large part,

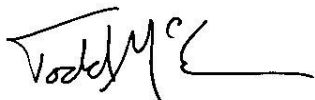
health care costs were the impetus for health care reform in 2009. Unfortunately, over a prolonged, contentious 15 month debate, this goal was marginalized in PPACA. It is time to get back to small businesses number one health care reform priority: reducing health care costs and premiums while improving health care quality.

NSBA strongly believes that any replacement legislation or new reform policies put forth to improve PPACA should prioritize and expedite health care cost-reduction and containment initiatives that reduce rates of medical utilization and trend inflation while improving health care quality and empowering consumers. NSBA supports greater health care cost-containment initiatives by speeding delivery and payment system reforms, comprehensive reform of medical malpractice laws, and providing economic incentives that encourage prudent consumer behavior.

In addition, regulations already underway from the Department of Health and Human Services defining federal parameters for health insurance exchanges and the essential health benefit package will have a significant long-term impact on small businesses' ability to provide affordable insurance to their employees. Small businesses are gravely concerned that misguided health insurance exchange regulations or excessive mandated essential benefits will exacerbate past health insurance woes while doing nothing to change underlying health costs drivers. Both regulatory requirements provide an opportunity to put downward pressure on health care costs for small businesses. NSBA urges Congress to embrace a strict oversight strategy over the development of these regulations that will have a significant impact on small businesses.

The aforementioned concepts are reflected in NSBA's health policy reform issue brief – *Health Care Reform Today and Tomorrow* (see enclosure). We hope to continue to work with you and your staff as a constructive participant on these and other concepts that will shape our nation's health care system. Please do not hesitate to contact me or NSBA staff to provide additional information on NSBA's health care reform principles or insight into the health care challenges faced by our nation's small businesses.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken". The signature is stylized with a large, sweeping initial "T" and "M".

Todd O. McCracken  
President

Cc:  
Members of the Education and the Workforce Committee

# Health Care Reform Today and Tomorrow

*Small businesses need health care costs-containment*

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NSBA opposed the *Patient Protection and Affordable Care Act* [PPACA, P.L. 111-148] and the *Health Care and Education Reconciliation Act of 2010* [HCERA, P.L. 111-152] due to its failure to truly address health care costs and insurance premium prices. New legislative activities and agency regulations should prioritize and expedite health care cost-reduction and containment initiatives that reduce rates of medical utilization and trend inflation while improving health care quality and empowering consumers.

## ***Legislative Initiatives: Health Care Cost-Reduction and Containment***

Despite PPACA's passage, reducing health care spending growth remains an urgent and unresolved issue, especially with an expansion of insurance coverage to 32 million people in 2014. NSBA supports greater health care cost-containment initiatives by speeding delivery and payment system reforms, comprehensive reform of medical malpractice laws, and providing economic incentives that encourage prudent consumer behavior.

- **Delivery System Reform:** NSBA supports an aggressive system-wide public sector implementation and private sector adoption of the Centers for Medicare and Medicaid Services' (CMS) pilot and demonstration projects that transform the health care delivery system into a value-based, not quantity-based, purchasing model (e.g., bundling, accountable care organizations, medical homes, etc.) that rewards quality (i.e., prevent costly medical errors, hospital readmissions, and geographic variations) and coordination of care (i.e., better management of chronically ill patients).
- **Medical Malpractice Reform:** Congress must pursue a comprehensive approach to tort reform that embraces health courts, limits medical malpractice awards, and subsequently reduces the phenomenon of defensive medicine that results in higher health care costs and inflated health care premiums.
- **Consumer Behavior:** PPACA does nothing to encourage cost-conscious consumer behavior, aside from the unnecessarily blunt "Cadillac tax," which will not begin to have an effect until at least 2018, and which is insufficiently transparent and imposes unintended administrative burdens on small businesses. The lack of consumer responsibility and empowerment causes both prices and utilization to go unchecked. In order to address this pitfall, Congress must reshape employer provided tax incentives to match the essential benefits package, regardless of whether health care is purchased through an employer or individually. Such incentives would be capped at the premium level for the required package, and additional coverage would be purchased using after-tax dollars. This will curtail over-insurance and ease demand for health benefits in lieu of other compensation. Additionally, in order to allow consumers to have "skin in the game," Congress must repeal the restrictions and limitation placed on health savings accounts and flexible spending accounts.

## ***Regulatory Initiatives: Health Insurance Exchanges and Essential Health Benefits***

Regulations from the Department of Health and Human Services defining federal parameters for health insurance exchanges and the essential health benefit package will have a significant long-term impact on small businesses ability to provide affordable insurance to their employees. Small businesses are gravely concerned that misguided health insurance exchange regulations or excessive mandated essential benefits will exacerbate past health insurance woes while doing nothing to change underlying health costs drivers. Both regulatory requirements provide an opportunity to put downward pressure on health care costs for small businesses.

- **Insurance Exchanges:** Health insurance exchanges should make it easier for individuals and small businesses to shop, compare, and enroll in health insurance coverage. NSBA supports insurance exchanges established through states, not the federal government. Additionally, true competition necessitates legislative changes that allow individuals, small businesses, and their employees to utilize federal subsidies and tax credits outside the insurance exchanges.
- **Essential Health Benefits:** Small businesses and their employees fear that the design and scope of the "essential health benefits package" will be too costly and restrictive. Small business consultation throughout the development of the basic benefits package is necessary to ensure the package reflects the needs of small businesses, their employees, and families. Flexibility in plan design that includes a truly minimal set of essential benefits to comply with the actuarial value requirements will provide small businesses with more options to offer affordable coverage to their employees.