

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
The Voice of Small Business.®

Statement for the Record for the

**Senate Committee on Small Business and
Entrepreneurship**

on the subject of

**Healthcare Reform: The Concerns and Priorities from
the Perspective of Small Business**

on the date of

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from the

National Federation of Independent Business (NFIB)

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For more than 80 percent of small business owners, obtaining affordable healthcare for themselves and their employees is a challenge. The National Federation of Independent Business (NFIB) supports comprehensive healthcare reform that addresses three key goals: market-driven cost-containment, new and efficient marketplaces for purchasing insurance, and more competition with greater choices of plans. Small employers, their employees and the self-employed deserve a system that embraces these goals and enables employees to have sustainable, long-term health insurance coverage.

Data show that, as costs soar, employers and employees struggle to afford coverage. Small employers have the greatest difficulty offering and maintaining health insurance for employees. Since 1999, health insurance premiums for small firms have increased by 113 percent. The Kaiser Family Foundation reports employer-based coverage has dropped six percent from 2000 to 2008, and that high and rapidly rising costs are driving this decline.

Insurance market reform is essential to all sectors, but especially to the small business community. The individual and small-group marketplaces have volatile premiums, constricted choice and abusive rating practices. These market failures put quality, affordable healthcare out-of-reach for a growing segment of Americans. Federal rating reform for both of these markets must provide more stability and less churning, while also giving greater parity between the markets. NFIB believes a broader, fairer, more seamless market will yield more portable coverage and less adverse selection. This is critical for entrepreneurs striving to grow and individuals starting new small businesses. A single illness can totally destabilize a small group. These unfair market rules place small business at a powerful disadvantage compared to big business and government. Rating reforms should allow small business to broadly share risk. At the same time, risk-adjustment mechanisms or reinsurance should reward insurers for taking on risk rather than for shedding it. To reiterate, these reforms should apply to both the individual and total small-group marketplace.

Small employers have long sought competitive, simplified, centralized marketplaces in which to purchase affordable health insurance. A well-designed exchange could serve as a clearinghouse for information, transactions, and financial flows. An exchange can serve as a virtual HR department, facilitating the purchase of private health insurance coverage for employers and their employees. Exchanges are particularly attractive to the individual and small-group market, since small-business owners are not human resource managers and don't typically have the skills or time to analyze complex health insurance options. Exchanges can bring decision-making to the consumer level with transparent information, better navigation, and multiple entry points for obtaining coverage. It is NFIB's hope that exchanges will significantly reduce the unacceptably high administrative costs that plague the small-group market. The Small Business Administration reports that, on average, administrative expenses for insurers of small health plans make up 25 to 27 percent of premiums and 33 to 37 percent of claims. This compares with about 5 to 11 percent of claims for large companies' self-insured plans.

As stated earlier, greater choice of plans should be a key piece of any reform effort. Today, among firms of 1 to 199 workers, 86 percent who offer coverage offer only one plan. Their employees have only two options: take it or leave it. If the employer is on the company's plan, it will likely be tailored to his or her needs rather than the needs of the workforce. This could be due to an employer's inability to know the actual health needs of the workers. This is not how our health insurance system should work. Small employers and their employees want the ability to choose from a variety of plans like big business does, and appropriately designed exchanges and pooling arrangements can provide this capability.

In any reform effort, small business will always ask the question, how much will the coverage cost? This is an extremely important question to consider as the benefit package design has a direct link to the amount of premium paid by small employers and the self-employed. It can vary widely by state considering states have the ability to impact benefit design. On top of that, efforts to limit deductibles, abolish lifetime and annual limits, and restrict cost sharing can all impact the cost of coverage.

As Congress explores ways to provide more value and greater choice in benefit design, they must be mindful about adding more bells and whistles to what is currently offered in the individual and small group market today. On average, small employers already pay 18 percent more than big business for the same benefits. It is imperative the focus remains on creating quality benefit plans that are affordable. Above all, a one-size-fits-all benefit plan will not solve the problem. Lawmakers must allow for multiple choices and options.

The NFIB has also supported tax equity for the self-employed as a means of reducing the cost of health insurance and increasing access. While self-employed individuals receive an individual deduction for health insurance, they still pay payroll taxes equal to the value of the health insurance. Providing a deduction equal to the amount owed in payroll taxes would address this disparity in tax treatment. Creating tax equity between employer-sponsored insurance and the self-employed is a significant step that Congress can take to reduce the cost of the health insurance.

Further, an immediate way to address costs for small employers is to provide targeted tax relief to small businesses. While cost savings associated with larger healthcare reform will not be realized immediately, a tax credit can help to stabilize the cost of healthcare coverage provided by a small business. Such a tax benefit could be targeted at the small business owner or their employees with the goal being to provide immediate cost reduction for small businesses. The design and effectiveness of such a credit will best be determined as the overall reform comes together.

Small business and NFIB have consistently opposed employer mandates. There are many reasons, though two stand out. The first is that employees ultimately bear the cost of their health insurance through less employment, depressed wages, depressed productivity, and loss of economic opportunity. This proposition is well-understood by economists of all philosophical stripes, including some in the current White House. As

Ezekiel Emanuel and Victor Fuchs recently wrote in JAMA, "Shared responsibility is a myth. Employers' contribution to the health care premium is really workers' compensation in another form." So, Congress must ask itself: do we want an employer mandate that effectively requires low-wage employees to indirectly and opaquely devote a massive proportion of their income to buying their own health insurance? Or, do we want to face the problem directly and transparently, providing direct subsidies to help low-income people to purchase health insurance?

The second reason NFIB has consistently opposed employer mandates is that the initial costs -- before these costs can be transferred to employees -- are borne by the most vulnerable employers. In effect, employers must front, or initially lend, the money for employees to purchase their health insurance. A common perception is that employers have plenty of money, or at least access to money. But in fact, many business owners who employ low-wage workers are themselves cash-poor, with limited access to credit markets. Many, like their employees, are just beginning to climb the economic ladder. Those firms not currently offering insurance are generally the ones least capable of making the initial outlays required to offer insurance. Their only recourse is to reduce their full-time workforce: to replace full-timers with part-timers or automation, to shrink their businesses or to close their doors. Again, referring to Drs. Emanuel and Fuchs, "Employers do not bear the cost of employment-based insurance; workers and households pay for health insurance through lower wages and higher prices. Failure to understand that individuals and households actually foot the entire health care bill perpetuates the idea that people can get great health benefits paid for by someone else."

Congress should focus on reforms that address the overall underlying costs that are driving behavior in the system, create better marketplaces to purchase coverage and establish greater competition in the private market. Unless costs come down, the potential for long-term success in achieving affordable coverage for all will remain a challenge. NFIB is eager to work with you and your colleagues to pass meaningful reform that will reduce the cost and improve the quality of healthcare.

CORE VALUES

We believe deeply that:

Small business is essential to America.

Free enterprise is essential to the start-up and expansion of small business.

Small business is threatened by government intervention.

An informed, educated, concerned, and involved public
is the ultimate safeguard for small business.

Members determine the public policy positions of the organization.

Our employees and members, collectively and individually, determine the success of
the NFIB's endeavors, and each person has a valued contribution to make.

Honesty, integrity, and respect for human and spiritual values are important
in all aspects of life, and are essential to a sustaining work environment.

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