



**U.S. Senate Committee on
Small Business & Entrepreneurship**

**Statement of the
National Small Business Association on
“Healthcare Reform: The Concerns and Priorities from the
Perspective of Small Business”**

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**Presented by:
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Chairwoman Landrieu, Ranking Member Snowe, and other distinguished Members of the Committee, on behalf of the National Small Business Association (NSBA), I am pleased to present comments in reference to small business concerns and priorities with respect to the current health care reform deliberations.

NSBA is the nation's oldest small-business advocacy group representing employers in every state. As an organization, we represent 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. More than one in two people in the U.S. private workforce—70 million—work for or run a small business, according to data from the U.S. Small Business Administration Office of Advocacy and U.S. Census Bureau. Small business comprises 99.7 of all U.S. private employers, or 26.8 million businesses, and creates more than half of U.S. gross domestic product.

Small business consistently triumph fiscal challenges to earn the adage of being the nations engine of economic growth. However, with respect to the current economic recession and recent trends in rising health care costs, small businesses need help. The cost of health insurance premiums has increased by 119 percent since 2001, far-outpacing inflation, which was increased 29 percent during that period. According to a recent NSBA survey, 97 percent of small businesses were subject to increased premiums since 2005. The impact from the rising costs resulted in 57.9 percent of employer respondents freezing employee compensation, 38.6 percent holding off on new hires, and 12.1 percent laying of an employee. In addition, survey results indicate that 51.6 percent of employer respondents are considering increasing employee's contributions, while 11.1 percent are considering dropping coverage.

Clearly small businesses have a large stake in the outcome of the health care reform deliberations. NSBA has been engaged in health care policy for decades, and in 2003, NSBA published *Small Business Health Care Reform—A Long-Term Solution for All*. This broad reform proposal of the health care system seeks to achieve 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. The cornerstone of NSBA's proposal is to achieve health care costs reduction and containment so that small businesses, their employees and dependents have access to quality, affordable health insurance.

In annual NSBA surveys over the past decade, health care reform has ranked number one or number two on the list of priorities for small-business owners, and continues to be among the top challenges facing the future growth and survival of their businesses. The decisive factor that small businesses cite for not offering health insurance to their employees is cost. Sixty-nine percent of small businesses surveyed in 2008 said they want to offer health insurance, however only 38 percent were able to do so—down from 67 percent in 1995. The cost of health insurance premiums has increased by 119 percent since 2001, far-outpacing inflation, which was increased 29 percent during that period.

Since 2001, the very smallest companies, those with 3 to 24 employees, have experienced the highest premium increases of all U.S. firms—often two to four percentage points higher than large business. The ability to offer health insurance is creating a significant competitive disadvantage for small firms, as 99 percent of large businesses offered health insurance in 2008.

There are a number of laudable goals and encouraging policy reforms being discussed in the Senate Health, Education, Labor and Pensions Committee and the Senate Finance Committee that reflect the principles in NSBA's proposal. However, with respect to the current debate, the key to successful health care reform that benefits small-business owners, their employees and dependents can be organized and focused in four areas, including cost reduction and containment; the notion of shared-responsibility; insurance market reforms; and the public health insurance option. Our comments as a non-profit association address the general principles that we apply to promoting health reform outlined in *Small Business Health Care Reform: A Long-Term Solution for All*.

Cost-containment

While small businesses need immediate relief from soaring health care costs, NSBA supports a comprehensive approach to bend the health care cost curve. Peter Orszag, Director of the Office of Management and Budget (OMB), recently testified before the House Budget Committee that "health care costs could be reduced by a stunning 30 percent—or about \$700 billion a year—without harming quality if we moved as a nation toward the proven and successful practices adopted by lower-cost areas and hospitals." These savings alone could provide each uninsured U.S. citizen with approximately \$15,000 towards health insurance—more than what is needed with respect to currently yearly premiums. Health care reform should look to create savings in the current system first to provide immediate relief of burdensome health care costs.

NSBA applauds the Senate's attention and efforts to reduce and contain cost in the health care system. Through the promotion of health information technology and comparative effectiveness; moving from volume-based payment to value-based payment systems; reducing readmissions to hospitals; focusing on chronic disease management; investing in prevention and wellness; and, the elimination of fraud and abuse, small businesses can begin to access affordable health care insurance.

NSBA hears one simple message from small businesses on unanimous cost-containment proposals from the House and Senate: tackle the 'low-hanging fruit' quickly and pursue cost-containment policies expeditiously.

'Shared-Responsibility'

NSBA supports the notion of 'shared responsibility' between individuals, employers and the federal government for all Americans to have health insurance; however, NSBA opposes the inclusion of a pay-or-play mandate on employers. NSBA's health care

proposal calls for all individuals to have a personal responsibility requirement to obtain health insurance coverage.

'Pay or Play' Mandate

NSBA looks forward to working with the Senate and House of Representatives to find appropriate and reasonable streams of revenue to finance comprehensive health care reform. However, NSBA opposes any mandates on small business employers to provide health insurance to their employees. The notion of a 'pay or play' scheme on employers is riddled with complex financial challenges and repercussions that could have a devastating impact on the ability of small businesses to be productive and create jobs.

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. In addition, proposals that provide cookie cutter categories to justify pay or play participation simply fail to recognize the diversity and unique goals of each small business. Establishing mandates on small businesses based on gross sales, number of employees, percentage of payroll, or other methods could prove detrimental to some businesses.

In addition, employer mandates can result in perverse incentives. Employers have to operate their businesses based on their bottom line. If small businesses are forced to pay unreasonable costs or fines in one area, then those funds will have to be offset or reduced in other areas, including cutting employee benefits; freezing or reducing employee salaries; foregoing or omitting plans to expand or reinvest; not hiring new employees; or, simply laying off employees.

Insurance Market Reforms

NSBA quickly learned that small business challenges in health care cannot be solved in isolation from the rest of the system. Since small businesses purchase insurance as part of the overall small group (2 to 50 employees), the decisions of others directly affect what a small business must pay and the terms on which insurance is available to them.

The reality of the non-group, micro-group (2 to 10 employees), and overall small group is individuals may choose to move between markets to find the best rate. In fact, millions of relatively healthy Americans choose not to purchase insurance (at least until they get older or sicker) due to the cost. The absence of these individuals from the insurance pool means that premiums are higher for the rest of the pool than they would be otherwise.

NSBA is interested in eliminating the variances that currently exist between the non-group, micro-group, and overall small group markets. Universal participation of all individuals in some form of health care coverage would address the variability of each market. This reform would provide for a different characterization of the non-group, micro-group, and overall small group markets by encompasses those who utilize the

health care system as well as those who are healthy. In fact, implementing an individual responsibility requirement in conjunction with federal rating rules across markets would effectively make these separate markets irrelevant for individuals shopping for the most affordable health insurance policy.

Thus, NSBA supports establishing federal rating rules, guaranteed issue and renewal rules for all coverage, elimination of the use of pre-existing condition and health status, across all markets for a federally-defined, truly basic benefit package. Insurance companies should be required to operate within narrow rate-bands based on modified community rating only limited to allowable actuarially-sound rating characteristics.

Health Insurance Exchange

NSBA's health care reform proposal supports a common set of insurance rules and other reforms to achieve quality and transparency across all markets, and the need for subsidies to be tied directly to eligible individuals. The concept of a health insurance exchange as a component to broad health care reform is proposed to address these issues. Overall, NSBA supports efforts to achieve greater transparency and access through reforms to standardized health insurance policy information and provide a more consumer friendly market. However, NSBA is unconvinced of the need for such a mechanism if the aforementioned reforms are implemented. If a health insurance exchange is implemented, it should be carried out at the state level and all market rules, individual low-income subsidies, and small-business tax credits should be consistent between the exchange and the rest of the health insurance market.

Public Health Insurance Option

NSBA is engaged in continual dialogue with small business owners on the proposal to establish a public health insurance option to compete in the private health insurance market. In general, the concept of including a provision that would ensure honesty and trust in the private insurance market is commendable. In addition, NSBA believes that competition is good, and should be directed to lower cost for consumers. However, NSBA urges the Committee to address these goals within every aspect of the current health care system, and not simply through the creation of a new public health insurance option. Furthermore, NSBA is concerned that a public health insurance option could do more to undermine than enhance needed market reforms.

With respect to the growing inefficiencies and instability of the Medicare and Medicaid programs, small businesses are concerned with the potential impact a new public health insurance plan would have on the private health care system in the future. We urge the Senate to fully consider alternatives to a public plan that would achieve the same results we all share in the health insurance market: choice, competition, and stability of affordable, high-quality coverage throughout the United States. We believe there are multiple opportunities to achieve these goals while avoiding partisan dialogue that could impede successful health care reform.

Other Provisions

NSBA Supports Equity for Our Nation's Self-Employed Act

In addition to the Committee's proposed options, NSBA believes Congress has a tremendous opportunity to address a great inequity under the tax code impacting the self-employed.

Currently, all workers at a large C corporation can exclude employer provided health insurance from their taxable income; however, small-business owners are excluded from those tax savings. The current tax code excludes self-employed individuals from deducting the cost of their health insurance for self-employment tax purposes. This inequity in the tax code means that the self-employed pay a 15.3 percent additional tax on their health insurance premiums that no one else has to pay.

As the law stands now, self-employed individuals still pay for their health insurance with money that has been subject to the self-employment tax. All employed individuals pay the FICA tax on their income, of which 6.2 percent is allotted for Social Security and 1.45 percent goes to Medicare. Employers are required to match employee contributions with a 7.65 percent contribution of their own.

Self-employed individuals are required to pay both sides of this tax resulting in a total 15.3 percent tax on income, commonly referred to as the "self-employment tax." Contrary to rules for C Corporations, a provision of the Internal Revenue Code requires self-employed individuals to pay the additional 15.3 percent self-employment tax on the cost of their health insurance premiums. No other worker is required to pay FICA taxes on any portion of their employer-sponsored health benefits. With health insurance costs already sky-high, our members find it unbelievable that the federal government would slap an extra tax on those who have the hardest time securing coverage in the first place.

The issue of full deductibility for the self-employed goes far beyond the simple inequity of the matter, there is a very real economic impact as well. A report released by the SBA's Office of Advocacy titled, *Health Insurance Deductibility and Entrepreneurial Survival*, shows that, "the health insurance deduction for the self-employed has decreased the likelihood of entrepreneurial exit by 10.8 percent for single filers and 64.9 percent for married filers." While these numbers are staggering at first glance; if you think about the issue from a personal point of view, the impact of deductibility in entrepreneurial growth seems like common sense. When a family's principle earner makes the decision to leave the predictable and structured world of a large employer and strike out on their own, availability of health insurance is a major issue. It stands to reason that the positive results from income tax deductibility for health insurance discovered by the SBA Office of Advocacy report would grow if Congress allowed the self-employed full deductibility.

Fortunately, *Equity for Our Nation's Self-Employed Act (S. 725/H.R. 1470)* would address this inequity and allow our nation's roughly 21.3 million self-employed business owners to fully deduct the cost of their health insurance. NSBA wholeheartedly believes

allowing self-employed business owners to fully deduct the cost of health insurance is an important part of the health care reform that will bring immediate relief and equity.

NSBA supports the SIMPLE Cafeteria Plan Act of 2009

Another option to address tax code inequities to provide small businesses with more choices for quality, affordable health insurance is the *SIMPLE Cafeteria Plan Act of 2009 (S. 988)*, legislation to update the tax code to allow small business employees to purchase employer-provided health insurance with pre-tax dollars.

The SIMPLE Cafeteria Plan Act of 2009 would create a Simple Cafeteria Plan for small businesses that would be modeled after the Savings Incentive Match Plan for Employees (SIMPLE) pension plan enacted in 1996. Under current law, employers must demonstrate that a certain percentage of their employees actually participate in the plan in order to qualify for tax-free treatment. However, because most small businesses cannot satisfy these rules simply because of their size, they are prevented from creating regular cafeteria plans, and their employees are oftentimes unable to purchase health insurance and other employee benefits from the employer. The bipartisan measure will update the tax code to allow more entrepreneurs to offer their employees quality, affordable health care coverage. In addition, the bill would strengthen current law for all cafeteria plans by expanding dependent flexible spending accounts (DCFSA) and including coverage for long-term care benefits.

Conclusion

We thank you for the opportunity to comment on small business concerns and priorities with respect to health care reform deliberations, and we welcome the challenge of actively working with each Committee to produce a sensible solution to our nation's small business health care challenges.

Sincerely,



Todd O. McCracken
President

NSBA Proposal for Broad Health Care Reform

As health care costs spiral out of reach for many small-business owners, it has become clear to NSBA that meaningful, broad reform of the health care system is necessary. This reform must reduce health care costs while improving quality, bring about a fair sharing of health care costs, and focus on the empowerment and responsibility of individual health care consumers.

Fair Sharing of Costs

The current health care system creates great inequities in how health care coverage is obtained and paid for. These inequities have profoundly-negative consequences for small businesses and their employees. NSBA proposes a fair playing field by implementing the following elements:

- All individuals would be required to obtain coverage. This will ensure that both healthy and sick individuals participate in insurance pools, spreading risk more evenly. Uncompensated care, currently funded through cost-shifting to the insured, would be dramatically reduced.
- The required benefit package would be subject to federally-established rating rules based on modified community rating, adjusted for geography, with defined rate bands within which all federally-defined packages must be priced. Insurers would operate on a guaranteed-issue basis and would be allowed to give limited discounts or benefit enhancements for wellness programs.
- Individuals and families would receive federal financial assistance for health premiums, based upon income. The subsidies would be borne by society at large, rather than in the arbitrary way that cost-shifting currently allocates these expenses.

Empowerment and Focus on Individual

The current private insurance market focuses almost entirely on the provision of third-party coverage through employers. This eliminates any consumer involvement, causing both prices and utilization to go unchecked. The employer focus means that the system frequently fails employees (often from small businesses) whose employers are unable to provide coverage. In addition to the steps outlined above, NSBA address these problems by:

- Creating a basic benefit package that includes only truly necessary benefits and recognizes the need for higher deductibles for those able to afford them. This type of package would help return health insurance to its role as a financial backstop, rather than a reimbursement mechanism for all expenses. More robust consumer behavior will follow.
- Reshaping tax incentives to match, 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.

Reducing Costs While Improving Quality

Too often the current third-party payment system financially rewards providers for unnecessary and bad care. Beyond the benefits that consumerism can bring, more must be done to improve both quality and keep costs in check. Needed elements include:

- The implementation of electronic records and procedures including digital prescription writing, individual electronic medical records, and universal physician IDs can reduce unnecessary procedures, increase efficiency, and improve the quality of care.
- Transparency is crucial to help consumers understand their own health care. All providers should make publicly available, a plain-language list of the top 20 in-patient and out-patient procedures' costs and risk-adjusted outcomes, to be updated annually and expanded until all procedures' cost and outcomes are publicly listed.
- Alternatives to traditional doctors' offices and hospitals—retail clinics, volunteer programs, urgent-care clinics—can offer near-term relief and should be supported.
- Pay-for-performance initiatives should be adopted by insurers following the lead of the Centers for Medicaid and Medicare Services (CMS). Providers should be reimbursed based upon actual health outcomes and standards, rather than procedures.
- In addition to limiting on medical malpractice awards, NSBA supports the implementation of Health Courts to handle medical injury disputes.