

**Testimony of Kelly Conklin
Foley-Waite Associates, Inc. – Bloomfield, New Jersey**

**Before the House Energy and Commerce
Subcommittee on Health**

**Hearing on House Tri-Committee Discussion Draft Proposal
for Health Care Reform**

June 25, 2009

Chairman Pallone, Ranking Member Deal, and members of the Subcommittee, thank you for this opportunity to share my experience with and views on our current health care system as it relates to the House Tri-Committee's Health Reform Bill. My name is Kelly Conklin, and I am a co-owner of Foley-Waite Associates, an architectural woodworking company in Bloomfield, New Jersey.

We've been in business for thirty years, and have worked for a wide range of commercial clients including Prudential Insurance, First Fidelity Bank, Shering Plough, Merck, and Citi Bank. For the past 15 years, we've focused on serving a high-end residential customer base in New York City. We have 13 employees, and currently we pay about \$5,000 a month in health insurance premiums. Health insurance is close to 10 percent of our payroll at this point, and it's the third largest single expense in our budget. So this is an issue of great concern to me. We attribute about 10% of our payroll to health insurance (I previously misstated the percentage in testimony before the House Ways and Means Committee in April 2009 and apologize for the error).

Small Businesses and Health Insurance: Responsibilities and Challenges

It is often repeated in the public square that small business is the backbone of our economy. It sometimes looks from Main Street, that along with the economic and political well-being of the free world, the small business community is charged with the health and wellness of the American worker. But the skyrocketing costs of health coverage for small businesses are pushing us to the brink.

Why even offer health coverage? First, there's a strong business case: it's a critical benefit to attract and retain the skilled employees we need to succeed as a company. But there's more to it. I do it because I feel it's the right thing to do for my employees. Part of why we started our own business was to create an environment where we ourselves would want to work. I once had a business consultant advise me that I should tell my employees I had to drop their health coverage to ensure their job security, but I just couldn't do it – the ethics seemed questionable. It's also the responsible thing to do because if I didn't offer coverage, I'd just be shifting the cost of my employees' health care onto someone else.

It's counterproductive to try to escape the costs of health care. From my standpoint, it's a fixed cost, an inescapable cost. The way we're doing things now, where responsible employers offer coverage and others don't, that creates an incredibly unlevel playing field. If my employees and I are sharing the costs, then another employer who isn't contributing for health care has a competitive advantage over us. We'd be much better off in a system where all employers are contributing a fair share, instead of this game of cost-shifting we're stuck with now. Small business owners like me are willing to contribute – 73 percent said so in the *Taking the Pulse of Main Street* survey I was a part of last year (see page 6 for more details).

Small businesses who want to offer health coverage face a number of serious challenges. We have no bargaining power with the insurance carriers – it's "take it or leave it." We pay more in administrative costs – 25 percent or more of our premium dollars, compared to around 10 percent for larger groups. Because of our small size, we can't spread risk effectively, and we get penalized for it. Because of rising costs, we're forced to reduce benefits by increasing deductibles and our employees' share of the premiums. And, we must contend with the great lack of transparency in the insurance market. It's so

hard to know what you're buying and impossible to determine whether your dollars are being spent well.

April is a month I dread, not for taxes, but for health care. We struggle every year to find a way to make it work. We've been forced to cap our contributions for employees' coverage, and we've gotten used to switching carriers every year. In three years, we've had three different insurance carriers. Most recently we had Horizon Blue Cross/Blue Shield, but they raised our rates 25 percent, so we have switched to Health Net. That means enrollment forms, discontinuation forms, finding new primary care physicians and, because my wife has a chronic illness, new specialists who know nothing about her health history. It's extremely frustrating, as the person who literally writes and signs the check every month, to know that a lot of that money is not going to provide care for the people I'm paying the benefit for – I pay thousands of dollars for a system that is inefficient and doesn't deliver the promise of decent care or financial security.

Back in '78 if you had told us that one day we would employ 13 people, occupy 12,000 square feet of loft space, serve some of the most influential people in the world and fork over \$5,000 a month in health insurance premiums, we would have questioned your sanity. Like thousands of other small company owners we felt our way along, picking up sound business practices by the seat of our pants, usually preceded by a swift kick to the same. To this day I am appalled whenever I read on a health insurance document that if an employee should have a question or problem with their health insurance plan they should "first contact the company health insurance administrator" – that being me. Talk about "in the land of the blind a one-eyed man is king."

Too often the "catastrophe" in catastrophic illness refers not the disease, but to the devastation of medical bankruptcy in the aftermath. The lack of transparency in health insurance policies means that the insurance purchased in this case by your local cabinet maker (me) could be a financial disaster waiting to happen. What are the limits of our policy? How many Americans think they're covered but then find themselves destitute because their employer "shopped" for the cheapest coverage? How many of us actually know our policy limits and how that compares to what we might need? And how much of what I and my employees spend on health insurance goes to make up the system's shortfall because millions of our fellow Americans are too poor to afford any insurance at all and receive their care in the emergency room, where the costs are highest and the outcomes least certain?

The health insurance market has failed to deliver on its promise for small businesses. It fails to provide peace of mind or deliver quality care. It fails to contain costs, enhance efficiency or improve outcomes. It fails to provide coverage to millions of our poorest citizens, to our low-wage workers, to our sole proprietors, to our corner coffee shop owner, our local plumber and car mechanic. Something has got to be done.

Real Solutions for Small Businesses

We need to stop whistling past the graveyard and face this problem full on. There are no cheap or easy solutions. But there are things we can do. I congratulate this committee and the other House committees with which you have collaborated in drafting the legislation we are discussing today. It represents a tremendous step forward in addressing the health insurance problems facing small

businesses, and I hope this committee will act quickly to approve it and encourage its passage by the full House of Representatives.

As this legislation demonstrates, we can promote transparency by having the private insurance companies come clean in plain English about where our premium money goes. We can have the private insurance companies produce policies that clearly explain and comparatively measure regional cost and probabilities so consumers can understand what it is they can expect and how secure they are from medical bankruptcy. We can assure everyone access to health care, preventative and therapeutic, and we can agree that this should be a shared commitment where employers like me, our workers, health providers and the government all contribute to make it so.

The legislation before us today addresses these needs by creating a Health Insurance Exchange that will provide a more competitive, transparent marketplace that will offer real coverage choices for individuals and small businesses. In this Exchange we will actually be able to compare the insurance plans being offered because the benefit packages will be standardized and the differences in the plans will be explicitly disclosed.

I'm pleased to see that the bill also includes provisions that will significantly reform practices in the insurance market to prohibit discriminatory coverage and rating policies. These changes are long overdue – I wish it wasn't necessary for the federal government to have to pass a law to get insurers to stop these unfair practices, but after the experiences we've had I know we need laws and regulations to keep private insurers honest.

But these reforms, as important as they are, are not sufficient to guarantee that individuals and small businesses will have real choices and truly affordable coverage options. To achieve these goals, I believe we must create a strong public health insurance option – and I commend the committee for including provisions in this bill that will do just that. The choice of a public health insurance plan will finally give small businesses like mine real bargaining power, it will provide a guaranteed backup, and it will promote greater transparency in the system. Perhaps most importantly, by creating genuine competition and restoring vitality to the market dynamic, this will bring about broad-based positive change in the private sector health insurance industry. According to the Commonwealth Fund, health reform that includes a public option has been estimated to save employers \$231 billion over 2010-2020, and \$3 trillion for the nation. Without the public plan option, those savings shrink from \$3 trillion to less than \$800 billion: we lose three quarters of the savings. I would submit that these are savings we cannot afford to pass up.

I think a public health insurance plan is also critical in encouraging innovation in coverage and affordability in a competitive marketplace. Our business has always sought to serve our customers better, more efficiently, and at lower prices, and we are driven by competition from other businesses. As a purchaser of health insurance coverage, I want my insurer to have to compete as hard for my business as I have to compete for my customers.

The bill phases in the eligibility of all but the smallest businesses to secure coverage through the Exchange, and through the Exchange to gain access to the public health insurance option, with firms employing 10 or fewer workers eligible in year one and businesses with up to 20 employees eligible in

year two. I appreciate the intention of the committee to be cautious and avoid creating unintended consequences by moving too quickly, but from my perspective we need to provide as many businesses as possible access to the Exchange and the public plan option as quickly as possible. I hope the committee will explore ideas for accelerating the phase-in of employer eligibility in the Exchange.

For small businesses like mine, the savings resulting from a public insurance plan and a truly competitive health insurance marketplace could mean the difference between cutbacks or expansion. Two years ago, we were seriously looking into buying our own building. It would have meant more security and more equity for our company. Unfortunately, the mortgage would have been \$5,000 a month compared to the \$3,500 we are paying in rent. If we could just switch the amount of money we are paying for health coverage with the amount of money we can afford to pay in a rent or mortgage – we would have that building now and our company would have the ability to expand.

With an active Health Insurance Exchange, meaningful reform of insurance coverage and rating policies, and a strong public health insurance plan option, I agree with the committee's proposal to require individuals and employer to pay their fair share to assure that all Americans have access to health care coverage. I support the approach of giving employers the option of providing coverage for their workers or contributing funds on their worker's behalf. I mentioned earlier that my firm pays roughly 10% of our payroll for health insurance costs, so requiring employers to contribute 8% of payroll doesn't seem unreasonable to me. It is a significant improvement over our current options, with greater transparency and protection against unfair coverage and rating practices.

The legislation also suggests that provisions will be included to provide an exemption from the shared responsibility requirement for some categories of small businesses. In order to assure that all Americans have access to affordable, quality health care coverage, it seems fair to me that all individuals and employers should bear a fair share of the responsibility. However, representatives of the Main Street Alliance look forward to continuing to work with you as you assess the interaction of the various small business related provisions in the bill to assure affordability across the full range of employers, whether they directly provide coverage for their workers, contribute to helping employees purchase their own coverage through and Exchange, or provide a targeted exemption for certain small businesses.

A word of caution about some things I believe won't help address the problems we face as small businesses. I don't believe new tax credits are, in themselves, a good solution to this problem. I would rather have real health reform that addresses the cost drivers in health care and bends the cost curve down than a tax credit that won't mean anything in two years after the costs just keep skyrocketing. That said, I support the inclusion of a small business tax credit in this legislation as a way to help those firms whose economic situation makes it difficult for them to contribute to providing health care coverage for their workers. A 50 percent credit will offer important assistance to businesses with 10 or fewer employees whose average annual employee compensation is \$20,000 or less.

I'm against capping the employer exclusion for health benefits: this would only push more small businesses over the edge into dropping coverage. We need to create a more stable environment so businesses and employees can afford to contribute, not undermine that stability.

Looking to Congress for Leadership

My challenges with health care and my views on what needs to be done to fix it are by no means unique. Back home in New Jersey, I'm a member of a coalition called the New Jersey Main Street Alliance. We're a coalition of over 450 New Jersey small businesses that are working together to support health reform that works for us. Last year I was surveyed as part of a national small business survey project, where surveyors polled Main Street business owners door to door and asked face to face what we thought about the state of health care.

The results of this survey, reported in "*Taking the Pulse of Main Street: Small Businesses, Health Insurance, and Priorities for Reform*" (full report available at <http://mainstreetalliance.org/wordpress/home/publications/>), confirm that the views of my fellow business owners across America are quite different than those often attributed to us. The survey results challenge the conventional wisdom on small business and health care in three key areas:

1. Our willingness to contribute: When asked if we were willing to contribute for health coverage for our employees, more than two thirds (73 percent) of small employers said yes. Furthermore, 63 percent indicated a willingness to pay 4-7 percent of payroll (in some cases more) to guarantee effective, affordable coverage for our employees.
2. Our support for real choices, including a public health insurance option: When asked to choose between a proposal with a public insurance option and a proposal with more private options, respondents chose the proposal with a public alternative two to one (59 percent to 26 percent, with 14 percent undecided/other).
3. The role of government in making health care work for us: When asked about public oversight and the role of government, small business owners supported more public oversight of the insurance industry by a margin of almost six to one (75 to 13 percent), and a stronger government role in guaranteeing access to quality, affordable health coverage by a margin of over four to one (70 to 16 percent).

We need Congress to act, and act swiftly, to advance real health reform, this year. In closing, I would like to thank the Chairman and members of the Subcommittee for allowing me to share my experiences as a small business owner. I am certain that if Congress can step back for a moment from the political blood battles that dominate the nightly news and instead keep Main Street in mind, you can craft the legislation we so desperately need to fix health care.

Thank you.