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THE HIGH COST OF SMALL BUSINESS

HEALTH INSURANCE: LIMITED OPTIONS

TUESDAY, OCTOBER 20, 2009

House of Representatives,
Subcommittee on Oversight
and Investigations,
Committee on Energy and Commerce,
Washington, D.C.

The subcommittee met, pursuant to call, at 1:08 p.m., in Room 2123, Rayburn House Office Building, Hon. Bart Stupak [chairman of the subcommittee] presiding.

Present: Representatives Stupak, Braley, Schakowsky, Christensen, Green, Sutton, Dingell, Waxman (ex officio), Burgess, Blackburn, and Gingrey.

Staff Present: Phil Barnett, Staff Director; Bruce Wolpe, Senior Advisor; Mike Gordon, Chief Investigative Counsel; Anne

Tindall, Counsel; Erika Smith, Professional Staff Member; Jennifer Owens, Investigator; Ali Neubauer, Special Assistant; Paul Jung, Public Health Service Detailee; Julia Elam, Fellow; Sean Hayes, Minority Counsel; Alan Slobodin, Minority Chief Counsel, Oversight; Peter Kielty, Minority Legislative Analyst.

Mr. Stupak. This hearing will come to order.

Today, we have a hearing entitled The High Cost of Small Business Health Insurance: Limited Options, Limited Coverage.

Before we begin, I have a unanimous consent request. Committee staff have prepared a memorandum that summarizes information gathered in our investigation into the small business health insurance market. I ask unanimous consent that the memorandum be entered into the record.

Dr. Gingrey. Mr. Chairman?

Mr. Stupak. Mr. Gingrey.

Dr. Gingrey. Reserving the right to object, Mr. Chairman. I understand majority staff has been working with the insurers to protect confidential medical and business information; and, of course, this information was given to the committee in good faith, with the understanding that it would not be made public before consulting with the companies that provided it. My question, Mr. Chairman, is the majority assuring us that there is no confidential or sensitive medical or business information in this staff memo, which we just got I guess the final version within a couple of hours, that will be revealed if we agree with this unanimous consent request?

Let me ask that again. Is the majority assuring us that there is no confidential or sensitive medical or business information in the staff memo that will be revealed if we agree to

this unanimous consent request? And if the majority cannot guarantee that the staff memo does not include confidential or sensitive information, would you amend your unanimous consent request to allow the majority and the minority staff to review the memo and make necessary redactions before it is included in the record?

Mr. Stupak. Mr. Gingrey, all the names of the companies have been removed. There is, from our review, no proprietary information or business information that would be inappropriately disclosed. I am very comfortable that there is nothing in there that would cause any concern. We redacted most of it.

This memo was actually done last night. We did have some names in there. We did hear some objection from the minority side, so we did remove those names so no one would be --

Dr. Gingrey. Mr. Chairman, I appreciate that. Again, I know that some of these companies -- and, obviously, I will not mention their names -- but they may be in States where there is a very limited market, and I do have some concerns that it would be fairly easy to put two and two together and figure out exactly who you are referring to.

Mr. Stupak. Again, we have reviewed it. We see nothing proprietary. We have run it by everyone that needed to be -- I don't think there is any reason to have any concerns. However, if you want time to look at it, by the end of the hearing if you say there is a line that should be redacted, I will be happy to do so.

Why don't we just go ahead and put it in the record, but if you have objections at the end of the hearing, when your staff has a chance to review it closer, I will be happy to --

Dr. Gingrey. Mr. Chairman, I think that is very fair on your part. I appreciate that. And we will take you up on that.

And, with that, I will remove my reserving the right to object and go ahead and let you put it in the record.

Mr. Stupak. Thank you. The memorandum is in the record; and if by the end -- the close of this hearing, if there is an objection on a line or two, we will have a chance to discuss it and remove that.

Our purpose here is not to divulge or harm any company's business practice. We may question their business practice, but we are not here to harm their business practice through inappropriate release of information. So, with that, the memo will be made part of the hearing record.

[The information follows:]

***** COMMITTEE INSERT *****

Mr. Stupak. The chairman and ranking member and the chairman emeritus will be recognized for 5 minutes for an opening statement. Other members of the subcommittee will be recognized for 3-minute opening statements. I will begin.

Today's hearing is the fourth of a series of subcommittee hearings on business practice in the private insurance market. Earlier this year, we held hearings on the insurance industry practice of terminating coverage after a policyholder becomes sick and files a claim. In our investigation, we learned that if your insurance company believes your illness may be costly, they will go back and reexamine your initial application to find any excuse to cancel your coverage. As health insurance industry executives brazenly told us, this practice, known as rescission, will continue until there is a national health care reform to expressly prohibit it.

Last week, we held a hearing on the problem of underinsured, which occurs when someone has health insurance but their coverage is inadequate, leaving them with a limited coverage when they need it the most. We heard compelling stories from Americans who purchased insurance, paid their premiums, and expected to be protected in the event of a health crisis. When that crisis struck, they realized that their insurance was woefully inadequate to cover the high costs incurred to treat themselves or their family members.

Today, we continue our investigation of the private health insurance market with a focus on the challenges faced by small businesses. Small businesses are a cornerstone of the American economy. They are the American dream. They employ 59 million American workers and created a quarter of the Nation's jobs from 1992 through 2005.

In August of 2009, the committee sent document requests to six leading health insurance companies that sell policies in the small business market, seeking information about how they set premium rates and about some of the largest premium rate increases in recent history. What we learned from that investigation was the insurance companies take advantage of lax State laws and regulations in order to purge unprofitable small business policies.

Because Federal law guarantees small businesses cannot be denied insurance once they have purchased it, insurers impose unpredictable and increasingly unaffordable increases. These unsustainable increases forces a small business to drop their health insurance because it is no longer affordable. Thus, the small business is purged. These increases are based on factors that are beyond the control of small businesses, such as employee health status, the size of the small business, and the age and gender of the employees.

As a result of these discriminatory pricing practices, small group premiums are subject to unpredictable and enormous

increases. Insurance companies routinely impose double-digit increases in premiums and, in some case, premiums increase more than 200 percent.

Some of the more shocking cases that the committee uncovered include in January of 2008 an insurance company offered a 232 percent premium rate increase to an engineering service company in Kentucky. The number of employees on the plan had dropped from eight to one.

In 2009, another insurance company offered a small technology firm in Georgia renewal of its current HMO insurance policy at a 214 percent increase in premiums. The basis of the rate hike was that the average worker at that firm became older and/or more likely to be female and the size of the company decreased.

Large annual premium increases can be devastating for small firms. As small firms struggle to stay afloat during this economic downturn, health insurance costs consume an even greater portion of company profits and make it even harder for these companies to cover all persons. Even before this most recent economic turndown, the cost of employer-sponsored health insurance was the primary concern of small businesses.

The average cost of a family premium for a small business health insurance plan is nearly \$13,000. This is up 123 percent since 1999, and the median family income grew only 29 percent over the same period. Because of these higher costs, nearly a quarter of all small businesses are making the difficult decision to

reduce their health benefits.

Small business employees are shouldering a higher burden of their costs. Over the last 10 years, worker contributions for health insurance premiums have more than doubled, while their deductibles have greatly increased. Some businesses have even had to take the drastic step of eliminating employer-sponsored coverage altogether.

Less than 50 percent of the smallest firms, those with fewer than 10 employees, offer coverage. As a result of reductions in small group coverage, more than half of all small business employees in 2007 were either uninsured or underinsured during the year.

It is clear that the high cost of health insurance is crippling small businesses in our country, just when we need our Nation's small businesses to contribute to job growth and economic recovery. We must reform our health care system so it does not punish those small business owners who choose to do the right thing and provide coverage for their workers.

Today, we will hear testimony from several small business owners about the challenges they face in today's small group health insurance market.

Mr. Mick Landauer is the owner of Bi-State Muffler & Brake, Incorporated, for the past 30 years. He has shops in Iowa and Illinois, employing 11 workers. This year, he was quoted a premium increase of 42 percent from his current insurer.

Mr. Landauer believes that this increase is due to his own congenital heart condition, which has required three heart surgeries in the past and probably more in the future.

This year, instead of accepting this outrageous increase, he opted to increase his employees' deductible to \$8,000 per individual and \$16,000 per family. Next year, he plans to take himself off the company's plan in order to reduce the insurance rates for his business. More importantly, he believes that it is the right thing to do for his employees.

Mr. Bruce Hetrick owns Hetrick Communications in Indianapolis, Indiana, with 15 employees. His company received double-digit rate increases from his carrier earlier this year.

His insurance plan also covered his late wife, who developed cancer and incurred over \$300,000 in treatment costs in her last year of life. In that year, Mr. Hetrick's health premiums rose 28 percent. After his wife passed away, his insurance company requoted the policy. The premium increase was rolled back to 10 percent.

Mr. Fred Walker owns St. Petersburg Glass and Mirror in St. Petersburg, Florida. He has offered health insurance since he started his company 15 years ago. His carrier has increased his premium rates every year, including a 14.6 percent increase this year.

To keep his business afloat during this downturn, he was considering dropping health coverage altogether until he found out

his secretary had breast cancer. He decided to do the right thing and maintain his company's coverage so his secretary could have coverage for her treatment. But, to afford coverage, he had to take a plan with a \$6,000 deductible. Because the group coverage was renewed, his secretary has been able to obtain the treatment she needs for her cancer.

We will also hear from Dr. Linda Blumberg, an expert on health insurance in the small group market, on the effect of health insurance costs on small businesses.

The U.S. House of Representatives will soon vote on H.R. 3200, America's Affordable Health Care Choices Act of 2009. H.R. 3200 contains critical insurance reforms that will end abusive insurance company practices. Under the bill, insurance companies can no longer rescind policies after people get sick based on minor mistakes or technicalities. The bill prohibits the type of annual and lifetime caps on coverage that lead many individuals to be uninsured or underinsured, and insurers will no longer be able to discriminate against small businesses based on how small they are or the health status of their workers.

We must reform health insurance so that small businesses can compete on a level playing field with large employers and lead the way for our Nation's economic recovery.

That concludes my opening statement. I would next turn to Mr. Gingrey for an opening statement, please.

Dr. Gingrey. Chairman Stupak, thank you. Thank you for

holding the hearing.

Our economy owes most of its success to the people who will testify before the committee today, Americans who work in a small business. Their prominent place in the American economy makes this hearing today an even more important one.

Small businesses create jobs and wealth. Surveys have shown that companies with as few as 20 employees are often responsible for a quarter of the country's job growth; and, in recent years, the vast majority of the United States firms had fewer than 50 employees.

First and foremost, Congress must enact policies that help these businesses grow and promote job creation. As we continue to review potential reforms for the health care system, we must also find a way to enact new policies and regulations that will help our small business owners provide their employees with quality, affordable health care.

Since 1999, the average annual cost of a family premium for employer-sponsored health coverage in a small firm has increased over 120 percent. That is about 12 percent a year over the 10-year period.

The three small business owners today will testify to a system that offers small businesses few options and increasing costs. They will all testify to the basic problem facing small business owners. With fewer employees, one illness can make health care unaffordable for all, for the entire employee group.

Bruce Hetrick will testify that his wife's cancer resulted in \$300,000 in health care costs. When it came time to renew his policy, the premium was scheduled to increase nearly 30 percent. His wife passed away a month before the new premium took effect. When the insurance company learned of this, they changed the premium increase to just 10 percent, a particularly cold comfort, I am sure.

Mr. Hetrick, I wish to convey my condolences for your loss and thank you for your courage in testifying today.

Fred Walker's business was hit hard by the economic turmoil of the past 2 years, so much so that in February of this year he had decided to discontinue the company's health care plan. Only then he learned that an employee had been diagnosed with breast cancer. For Mr. Walker the choice was easy. He decided to continue the employee health care plan, but he was facing a 14 percent increase in the premiums last year. Today, he worries that the next premium increase will be much more substantial and very possibly unsustainable.

Mr. Walker, I thank you also for taking care of your employee and for being here and appearing before the committee.

Michael Landauer has been operating the Bi-State Muffler & Brake for 30 years. He has been able to offer his employees' health care, but today those costs are spiraling out of control. Over the last 2 years alone, his deductibles have quadrupled. Mr. Landauer plans to remove himself from his own plan next year

because his own health care costs are what essentially is driving up the premiums for the rest of his employees.

Mr. Landauer, thank you again for being here and testifying.

I note the title of this hearing is The High Cost of Small Business Health Insurance: Limited Options, Limited Coverage. It is a sad truth small business owners have few options when it comes to purchasing health insurance.

Congress has an opportunity to enact reforms that address these skyrocketing costs. However, I recognize that there are ideological differences among this body regarding how we provide small business owners with more affordable health care options. To be frank, we do them and millions just like them a disservice by insisting that the path to reform is singular, one size fits all. This Congress should consider high-risk pools that can be designed to offer those with chronic illnesses affordable coverage without requiring their co-workers or employees to pay more for their own coverage. We should also give small business owners the ability to choose the coverage they want, free of mandates for care that require them to purchase services that they don't need or want. These are but two examples of many ideas that Republicans want to share with our President and Democratic colleagues, if they would only take the necessary time to listen.

I thank the witnesses again for appearing before the committee today. I look forward to your testimonies and the dialogue to follow.

Thank you, Chairman Stupak; and I yield back the balance of my time.

Mr. Stupak. Thank you, Mr. Gingrey.

Mr. Waxman, chairman of the full committee, opening statement, please, sir.

The Chairman. Thank you very much, Mr. Chairman.

Today, we are going to hear about the difficulties small businesses face in finding and keeping affordable health care coverage for their employees.

Last summer, Chairman Stupak and I initiated an investigation into insurance company practices in the small group market. The committee obtained thousands of pages of insurance documents, interviewed company executives, and heard stories from numerous small business owners. What did we learn? Simply put, the health care market for small business health insurance is fundamentally flawed. Rising health insurance costs are wreaking havoc on small businesses and their employees. As one of today's hearing witnesses put it, health care and health coverage inflation is small business enemy number one.

Many small business owners, like the ones we will hear from today, want to provide health coverage for their employees. It is not only the right thing to do, but it also makes good business sense because it helps them recruit and retain better employees. But the current system stacks the deck against small businesses. Small firms pay premiums that are 18 percent higher than what

large companies pay for the same level of coverage, and insurance companies can legally discriminate against small firms when setting premium rates. If a small firm employee gets sick, the insurance company can hike up the premium rates in order to recover its costs.

Insurers can also charge discriminatory rates based on the age and gender of the small firm's employees. They can charge higher premiums to small businesses that employ older people or young women who might get pregnant, and these discriminatory rate-setting practices are perfectly legal under our current health insurance system.

Moreover, the insurance companies punish small businesses for being small. Insurers charge the highest premium to the smallest firms, who, unlike large businesses, cannot spread risk among many employees.

Our investigation revealed that annual premium increases can be staggering. Insurers take advantage of weak State regulation of premium rates in order to purge from their rolls the less profitable small group policies, and they do this by making their insurance plans too expensive for a small business to afford.

Small businesses commonly face double-digit increases in their health insurance premiums; and insurers impose even steeper rate hikes on the small businesses that happen to have a sick employee, employ more women than men, or have an older-than-average workforce.

The committee's investigation revealed that several insurers have imposed premium increases of greater than 100 percent on small business customers. Two insurers have imposed rate hikes of greater than 200 percent in a single year.

Given the sky-high costs of small group coverage, it is not surprising that small businesses are less likely than large to offer coverage; and, as premiums skyrocket in this market, the share of small businesses that offer group plans continues to decline.

The committee has investigated a variety of private insurance practices, and one common theme has emerged. Insurance companies compete not on the basis of who has the best record of keeping their customers healthy but based on who is best at avoiding covering people who need life-saving and expensive health care. When we examined the individual health insurance market, we learned that companies will cancel policies after a policyholder gets sick and files claims.

In the small group market, insurers don't cancel policies. Instead, they increase rates to unaffordable levels so they can unload small businesses with sick employees from their plans. In each case, the insurance companies have created a win-win scenario for themselves. If health claims are low, the company collects premiums and makes money. If policyholders get sick, the company finds a way to get rid of the unprofitable policy.

But that is not how insurance is supposed to work. The

purpose of insurance is to spread risk across large numbers of people so that when some people get sick they receive needed care without experiencing financial ruin. In today's private health insurance market, too often insurance companies simply aren't there when they are needed the most. It is time to fix this broken system and ensure that everyone has access to affordable, reliable insurance.

Thank you, Mr. Chairman.

Mr. Stupak. Thank you, Mr. Chairman.

Mrs. Blackburn, 3 minutes for an opening statement, please.

Mrs. Blackburn. Thank you, Mr. Chairman.

Welcome to our witnesses. We are glad that you are here. We appreciate your submitting your testimony in advance so that we could prepare for the hearing today, and we welcome each of you. We will be interested to hear your comments and to get your thoughts on the issue that is before us.

Last week, we had a hearing that has been mentioned. It was on the rescissions issue. And as I said then and will restate today, I favor patient-centered, free market-oriented health care solutions that will keep people covered and employed, which is what we want to do.

And we know that you all want to be able to keep people employed, and I think it is especially important for you, because we know that small business firms that employ 500 or fewer individuals, that comprises half, half of the American people that

work in the private sector. And that should not be lost on us as we look at how we approach health care reform. Small businesses have created more than 72 percent of the new jobs created across this country in recent years; and, because of that, we have a true appreciation for what you do.

I do have concerns with the plans that the Democrats have brought forward on health reform. I was looking at some research today. Basically, their reform plan includes a \$544 billion surtax on what is termed "the rich". But we all know that is primarily those of you who are small business owners and are going to bear the brunt of some of the reform efforts that have been mentioned and brought forward. According to data from the IRS, more than half of those targeted under the Democrats' health care surtax are the small business owners.

Now, this is of concern to me because I come from Tennessee, where we have had the test case for public option health care. It was put in place in late 1994. It is a program called TennCare.

Our small business owners, while I was in the State Senate there, worked with us repeatedly because of their concern for the way the program was structured; and what we saw happen with the advent of public option health care in our State was that the cost of insurance went through the roof for our employers. It escalated more than the national average. And you have heard my colleagues talk about the rate of increase in some of their States.

We are also concerned as we look at increased taxes and the mandates and bureaucracy, and we have read some of the estimates that health reform policies that have been proposed from this body would cost as many as 5 and a half million American jobs. We don't want to see health care become such an expense that you can't afford to keep your doors open. I am on your side in making certain that this stays affordable. We are looking at other options.

I thank you for being here.

I yield back my time.

Mr. Stupak. I thank the gentlelady for her opening statement, but I must correct it. H.R. 3200 does not impose a super tax on small businesses. It is on individuals who have incomes more than a million dollars. It is not on small businesses. I am sure it was just a misstatement or something. I just want to clarify the record.

Mrs. Blackburn. Mr. Chairman, I would love to submit the memo I have in my hand, if that would be acceptable.

Mr. Stupak. I have no problem with you submitting a memo in hand, but you have got to have your facts straight.

I mean, 1 percent of income between those who make 350 to 500,000 and 1.5 percent between those that make 500 to a million. The issue is there is no extra tax on small businesses. That is what your statement said, 500-some billion. That just is not true. It is only 1.2 percent of all taxpayers, individual

taxpayers, not businesses that would have to pay the surtax.

Mrs. Blackburn. Mr. Chairman, most small businesses file as a sub S or file on a regular 1040. And I think 22 members of your caucus also have written the Speaker with concerns about this very issue for those small businesses.

I join many of our small business owners. They are not claiming party affiliation. They are claiming concern. Many in our State have seen it because of the impact of TennCare.

I raise it not as an item of controversy but as an item of concern that I have for our Nation's small businesses. And I think that, as we move forward, you have always been good to work with us on issues, and I would look forward to working with you to make certain that we address this so that it does not affect our Nation's small business owners.

And I appreciate the hearing today.

Mr. Stupak. Well, again, let me just state, even if you want to call it a subchapter S, the tax is not on business. It is on individuals, and those with the highest 1.2 percent of all taxpayers would have to pay it. It is not on businesses. I guess we can argue that all day, but it is not on businesses. I want to make that clear. It is on individuals. Okay? And that is from the Joint Tax Committee.

Mrs. Blackburn. They are business owners, sir. Thank you.

Mr. Stupak. I am not arguing where you are getting your income from. What I am saying is it is on individual income, not

on businesses.

Mr. Braley for an opening statement, 3 minutes.

Mr. Braley. Thank you, Mr. Chairman; and thanks to all of our witnesses for joining us today.

The problems that we are here to talk about are all too familiar to me as a small business owner for 20 years before I came to Congress. For the last decade that I can recall, the place where I worked, where I was a small business owner, faced a minimum of 15 percent premium increase notices every year and a maximum of 47 percent.

When you are a small business faced with that challenge, you have limited options; and one of the options that we pursued almost every year was filling out multiple insurance applications at four, five, six, seven different companies in search of a better option for the employees that we cared about. And yet almost every year we were faced with the harsh reality that in my State of Iowa 80 percent of the health insurance market is dominated by two companies; and so there were very, very few cost-effective options available to small business owners.

And I am also very familiar with the impact that one severe illness among your employees or a covered member of their family can have on dramatically increasing the cost of a small business's insurance costs. We had employees who were diagnosed with multiple sclerosis. We saw our premiums skyrocket because of the enormous costs of caring for that lifelong disease. We had

employees diagnosed with cancer, who suffered substantial health care costs. That also impacted our next year's premium costs.

These are not things that are abstract to small business owners. These are the challenges they face every day. And they want to try to provide the best possible coverage for their employees. But when we see what is happening right now with health care costs projected to go up 10.5 percent again next year, according to the health insurance industry itself, we know that that is not just going to be a dollar-for-dollar pass through to small businesses. Because if you look at the trends, it is usually about a two-fold or three-fold increase in premium costs.

And that is why, to quote our friends on the other side, free market-oriented health care solutions aren't working for small businesses. We have had high-risk pools that have been available in many States. It has not solved the problem that small business owners face. And that is why it is time to look at new, creative solutions like a public health insurance option to inject more competition into a free market system that does not have competition in many States and to give small business owners true choices in the type of coverage they are looking at to provide to their employees.

And there was a reference to this surcharge. Well, the IRS has done analysis of every congressional district in the country in terms of who would be impacted by the surcharge that is in the House health care bill; and in the First District of Iowa

99.33 percent of my constituents would not be impacted at all by that surcharge.

So I want to thank everyone for being here today. I am proud to have a witness from my district, Mick Landauer; and I look forward to his testimony.

Mr. Stupak. Thank you, Mr. Braley.

Mrs. Christensen for an opening statement, please.

Mrs. Christensen. Thank you. Thank you, Chairman Stupak, for holding this hearing.

Small businesses have a major stake in what we are trying to do in health care reform. As a physician and also a former small business owner, of course, and a former 10-year member of the House Committee on Small Business, the gravity of this issue and its implications have long been of concern.

Our Nation's present and future economic health thrives and flourishes based on the viability of our small businesses. They employ more than half of our country's private sector workforce and are currently responsible for three out of four new jobs. Yet, due to increasing premium rates and their already very high insurance costs, more and more of these businesses find it difficult, if not impossible, to offer their employees health insurance; and this is even more acute given the current economic crisis.

Looking to the future, the Council of Economic Advisers predicts that if nothing is done to address insurance plan

practices or to slow the rise in employer health premium rates now, fewer than 20 percent of small employers will offer coverage by 2040.

The success of small businesses depend on a healthy workforce; and we all know that when one does not have insurance, needed health care is often deferred. Without healthy workers, small businesses cannot thrive. So passing a robust health bill is vital to the survival of this engine of our economy. Done right, it will level the playing field, giving small businesses the opportunity to offer affordable, quality coverage to their employees at a fair price.

I would like to also thank the witnesses for being here this afternoon to help highlight this need and the opportunity we have before us to make a difference in the strength of this important sector of our economy.

Thank you. I yield back.

Mr. Stupak. Thank you.

Mr. Dingell for an opening statement.

Mr. Dingell. Mr. Chairman, thank you.

I thank you, Mr. Chairman, for holding this very important hearing on an issue which is central to our comprehensive health care reform efforts.

The United States spends over \$1.9 trillion annually on health care expenses, more than any other industrialized nation. These costs keep rising and are a major factor in the difficulties

facing American businesses in remaining competitive and profitable.

This is strikingly apparent for America's small businesses. There is no doubt that today's private insurance market is not working well for anybody but especially so for small businesses and for their workers. They are severely disadvantaged by the current U.S. health care system's operations relative to their larger counterparts.

Small business owners and their employees are receiving fewer benefits and paying higher costs for health coverage. During the past decade, the median family income grew 29 percent, while the average annual cost of a family premium on a small firm increased 123 percent.

The U.S. health care system imposes also a heavy tax on small businesses and their employees, not often noted except by the small business people. Small businesses pay up to 18 percent more per workers than large firms for the same health insurance policy. Some of these higher costs are passed on to small firm employees in the form of lower wages or in the form of lesser benefits, and some eat into the profits of small businesses that could otherwise be used for much-needed investments.

I have heard from many small business owners in my district about their genuine desire to provide health care for their workers. Unfortunately, because of the costs, they are simply unable to do so. This impacts recruitment, retention, and places

them at a very real and severe competitive disadvantage.

I want to express my particular thanks to our witnesses who have joined us today. I am happy to tell them that their testimony reminds us why it is so crucial that we pass comprehensive health care reform this year.

And, again, I want to commend you, Mr. Chairman, for having this hearing.

We understand that small businesses are critical to job growth and innovation in the U.S. economy. They are the key to our economic recovery.

In drafting comprehensive health reform legislation to the House, we have taken aggressive steps to ease the burden currently experienced by small business owners who struggle to provide health care for their employees. Under H.R. 3200, small businesses will be able to provide and to purchase health insurance through a national insurance exchange, allowing them to choose between a multitude of plans that would provide better coverage at lower costs than they could find in the current group market. Those plans would also be transparent, and those plans would also meet rigorous standards for the protection of the employer and the employee.

Small business employees will no longer be penalized for pre-existing medical conditions, a poorer health status, or age. Some small businesses that provide health insurance for their employees will receive up to a 50 percent small business tax

credit to alleviate their disproportionately higher costs and encourage better coverage. Additionally, small business owners will benefit as costs for the uninsured are no longer shifted onto employers.

Mr. Chairman, I commend you again for your diligence in this matter. Today's hearing and the investigations that you have been conducting highlight the importance of our cause to deliver comprehensive health reform for the American people.

Thank you, Mr. Chairman. I yield back the balance of my time.

Mr. Stupak. Thank you, Mr. Dingell.

We will hear from Ms. Sutton from Ohio.

Ms. Sutton. Thank you very much, Mr. Chairman; and thank you for holding this important hearing.

And, to the witnesses, I look forward to hearing what you have to say. Thank you for coming forward and sharing your experiences and your stories to inform our discussion and our policymaking.

You know, small businesses are the drivers of our economy; and, from 1992 to 2005, companies with fewer than 20 employees accounted for a quarter of the Nation's job growth.

And Ohio is also experiencing that kind of job growth in small businesses. From 2004 to 2005, small businesses created the only surplus in new jobs for Ohio. In those years, while larger employers saw decreases in employment, the smallest Ohio

employers, those with one to nine employees, saw large increases.

Small businesses in Ohio have the ability to thrive, but health care costs pose a major impediment to their potential continued success. In 2008, Ohio's small businesses spent \$5.3 billion in health care premiums, and a Small Business Majority report found that the number could rise to 12.5 billion by 2018 without health care reform. These high costs lead employers to cut benefits or, in many cases, not offer them at all.

In 2008, just 31 percent of Ohio's small businesses reported paying for health insurance for their employees. Of the ones that did, 71 percent said that they were struggling to do so; and of the ones who don't provide insurance, more than 75 percent of those said they could not afford it.

Small businesses are not unlike individuals when they are trying to buy health insurance for their employees. They don't have the bargaining power and are charged higher prices for plans that are less generous. Basically, insurance companies discriminate against them, giving them "take it or leave it" plans.

The rates and services offered can vary greatly, even for companies that are the same size and may be involved in the same business. Over the past year, this subcommittee has been active in exposing and revealing underhanded insurance practices by insurance companies. We are gathering information on the

cancellation of small business plans as well as the overall business practices of insurance companies.

In a hearing last week, my colleague, Representative Schakowsky, referenced a news story in which an insurance company cancelled an entire line of insurance for small businesses in order to remove costly beneficiaries from their roles. It is unconscionable behavior, pursuing profit without regard to the wake of harm, the people that they leave behind stranded not only with health problems but with no way to access the care they need to overcome them.

We must get to the bottom of these harmful practices, and this hearing is a good step in that direction. As I said, small businesses are part of a growing list of people and institutions, entities that need health care reform now in order to succeed.

And I yield back.

Mr. Stupak. Thank you, Ms. Sutton.

Mr. Green for an opening statement, please.

Mr. Green. Thank you, Mr. Chairman.

I would like to place my full statement in the record.

Mr. Stupak. Without objection.

Mr. Green. And thank you for holding this hearing.

Because small businesses, particularly in a tough economy, face such a hard decision. Because in my earlier life I actually helped manage a small business with 13 employees and had to negotiate with insurance companies. We had a bargaining unit, so

our line employees, our production employees would be covered, but we wanted something to cover all 13. And I can tell you a lot of experiences, and I will tell you one. Because we would sign a 3-year contract, and in its first year they would always raise the premium so much because they knew we were producing a product and not actually in the business of buying insurance, and it went to where we had to go every year almost and threaten to take our work, policy elsewhere.

But 1 year they came to me and said, because it was my job to negotiate with the insurance company, they came to me and said, you have one employee who has had two radical mastectomies; and if you exclude that employee, we can give you a lot better rate. And I said, you don't understand. That employee is the wife of the owner, and it is a family company, and I will tell him you suggested that. They actually pulled it off the table.

But, you know, that is what employers, small businesses see every day, the choice of either cutting employees or cutting your health care. And that is why what Congress is trying to do is so important, to put small business on a level playing field so they can bargain with insurance companies on some type of even field.

And so, Mr. Chairman, thank you for calling this hearing. Hopefully, it will point up the need that we have for some kind of national health care exchange for small businesses to participate in. I know in Texas we tried to do that, with very limited success.

But, again, thank you, Mr. Chairman. I look forward to the testimony.

[The prepared statement of Mr. Green follows:]

***** COMMITTEE INSERT *****

Mr. Stupak. Thank you, Mr. Green.

Ms. Schakowsky for an opening statement, please.

Ms. Schakowsky. Thank you very much, Mr. Chairman, for holding this hearing that focuses on the problems of small business owners and their employees.

Virtually every business and every household in our country is struggling to cope with rising health care costs. It is really Code Red for small businesses.

The Main Street Alliance describes it this way: Quote, Every day small businesses are being forced to drop health coverage, lay off employees, or shut their doors for good because of the rising costs of health care.

Small businesses can't afford the cost of doing nothing on health care. We can't afford to see insurance costs continue to skyrocket with no bargaining power to keep the insurance companies in check. We can't afford to pay more for less coverage, including twice as much in administrative costs as larger groups, with no real alternatives. We can't afford to keep absorbing huge rate hikes in this system that gives insurers free rein to discriminate based upon our employees' health status and gender.

You heard about health status. I hope to ask some questions about gender. This is a critical condition confronting many of my constituents, people like Marie, who owns a candy store in Wilmette. After she and her husband were denied coverage, they

were finally able to find a policy but one that requires them to pay \$1,700 each month in premium and out-of-pocket costs. And how many small business entrepreneurs can afford that, particularly in today's economy?

Or Jim Kelly of Glenview, Illinois, who works for a small business that can't afford to provide coverage to its workers. Jim and his wife are forced to take, in his words, a risk. We are paying cash for our medication and hoping that nothing major happens until we are eligible for Medicare.

Americans shouldn't be asked to gamble with their lives. It is time for solutions. I hope that we will hear today the changes that are essential to keep small business economically strong and small business employees healthy, and I think this hearing and action on health care reform couldn't be more timely.

Thank you, Mr. Chairman.

Mr. Stupak. Thank you, Ms. Schakowsky.

That includes the opening statements by members of the subcommittee.

We have our first panel of witnesses before us.

Our first witness, Mr. Landauer, comes from Iowa and is a constituent of Mr. Braley. Mr. Braley is Vice Chair of this subcommittee, so I am going to ask him to take a moment and introduce Mr. Landauer.

Mr. Braley. Thank you, Mr. Chairman.

I am proud to introduce Mick Landauer, a constituent of mine

and the owner of Bi-State Muffler & Brake, Inc., in Davenport, Iowa.

Mick showed up at one of my very first town hall meetings on health care in July in the Quad Cities and has been working with my office all year on important health care issues, particularly the challenges of providing affordable health care coverage for his employees. I want to thank Mick for helping me on this critical issue and for being here to share his story with the subcommittee.

Mr. Stupak. Thank you.

And Mr. Bruce Hetrick is with us. He is a small business owner from Indianapolis, Indiana. And thanks for being here. I know it was difficult. And sorry about the loss of your wife. But it is a story I think we all need to know, because I think small businesses face it every day. So thank you for being here.

Mr. Fred Walker is a small business owner from St. Petersburg, Florida. I know the economy is not the best down there, so I am sure you can give us some insight not just on health care but also on economic and what it is doing to your business line on health insurance.

And Dr. Linda Blumberg, who is a Senior Fellow at the Urban Institute, expert on small business and insurance; and we look forward to your testimony.

It is the policy of this subcommittee to take all testimony under oath. Please be advised that you have the right under the

rules of the House to be advised by counsel during your testimony. Do you wish to be represented by counsel?

Everyone is shaking a their head no, so I will take that as a no answer. Therefore, I am going to ask you to please raise and raise your right hand and take the oath.

[Witnesses sworn.]

Mr. Stupak. Let the record reflect that all witnesses answered in the affirmative. They are now under oath.

We will hear from you with an opening statement 5 minutes long. If you have a longer statement, we will include it; and it will be made part of the record.

Mr. Landauer, if you don't mind, we will start with you. We will go from my left and go right across. You might want to turn that on, Mr. Landauer. A green light should go on. There we go. Go ahead.

STATEMENTS OF NORMAN MICHAEL LANDAUER, BI-STATE MUFFLER & BRAKE
INC., DAVENPORT, IOWA; BRUCE HETRICK, HETRICK COMMUNICATIONS,
INDIANAPOLIS, INDIANA; FRED WALKER, ST. PETERSBURG GLASS AND
MIRROR, ST. PETERSBURG, FLORIDA; AND LINDA J. BLUMBERG, URBAN
INSTITUTE

STATEMENT OF NORMAN MICHAEL LANDAUER

Mr. Landauer. Thank you, Mr. Chairman, and to all honorable members of the congressional subcommittee. I am here today to give just one story on the high cost of small business health insurance.

I do own my own business. I have owned the company for over 30 years, and one of the perks we offer at the company is a group health insurance policy for the employees who desire coverage. The cost is split on a 50-50 basis, and these costs keep rising.

In 2006, our company paid \$17,500 for health insurance. That was about 2 percent of the business costs. In 2007, the health insurance costs rose to \$22,000. That was 2.4 percent of our costs. In 2008, health insurance rose to \$25,500; and, again, our costs of it rose also. In 2009, health insurance through September has cost \$21,660, which comes out to about \$29,000 for the year, and is up to 3 percent of our expenses.

The rates per employee have been climbing tremendously. In

order to keep them down, our deductible is rising instead. Our monthly premiums now are around \$400 for a single individual and around \$850 on the family plan. The deductible is at \$8,000 for an individual policy and \$16,000 for the family plan. The muffler shop pays for half the deductibles in 2009.

Last year, we had deductibles of \$4,000 for an individual and \$8,000 for a family plan, with monthly rates that were quite a bit lower. Two years ago, the deductibles were \$2,000 for an individual and \$4,000 for the monthly plan. The monthly rates again were lower yet. At our next signing period, I expect the deductibles to double once again, with the monthly rates to go up by \$50 to \$100.

How can this be? It is because one of our policyholders was born with congenital heart disease. He visits a specialist twice a year. A routine visit costs anywhere from \$1,200 to \$1,500. Any specialized tests that may be done can run \$10,000 or more. And that employee is me.

The only way I see to keep both monthly rates and deductibles reasonable is by taking myself off our group policy. I will not be able to get health insurance, individual or otherwise, as I have turned down our company's group plan that is available to me.

So I ask you, what options do I have? Pay for my own medical costs, in which case I would be forced to sell the business? Quit going to doctors, including my congenital heart specialist, even though I now have a pacemaker? Or how about moving to Canada,

which has a national health care plan? But yet again, I would be forced to sell my own business.

To me, owning your own business is the American dream, a dream that now seems to be only that, a dream. I turned 53 last Thursday and am beginning to wonder how it could all go wrong. Is it punishment for not being the typical person?

I employ 11 people at the muffler shop, including myself, and do feel successful in the business world. I am a member of our local temple. I am a member of two nonprofit organizations. But I have learned anything can change in an instant.

Anyway, I would like to personally thank you for letting me have my time at the hearing. I know that our health insurance landscape does need a change. I know that is an issue with all Americans, as it does affect each and every one of us. I do understand there are as many reasons for a change in our health insurance system as there are against that change, and I see there is no right or wrong answer to the question of health insurance.

As for me, I am for a change in the way that health insurance policies can be written. Whether we make them national in scope or even let the government offer their own policy, I feel it is time for a change. Health insurance is not just a purchased item, as is car insurance, but rather a part of America that does affect all Americans.

I know you have a difficult task ahead of you, and I wish you all the best in trying to solve America's health care dilemma. I

wish you the best of luck in the decisions you are going to make that will not only impact me but the rest of America as well. Each and every one of us are going to be affected by your decisions.

Once again, thank you for letting me testify before you today. It has been my utmost honor to have the privilege of speaking before you and trying to give a voice for many other people besides myself.

[The prepared statement of Mr. Landauer follows:]

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Mr. Stupak. Thank you, Mr. Landauer.

Mr. Hetrick, your opening statement, please.

STATEMENT OF BRUCE HETRICK

Mr. Hetrick. Mr. Chairman and members of the committee, thank you for the opportunity to talk with you about the impact of health insurance on small business.

My take on our health system comes from three perspectives.

First, you need to know that I am a hearing-impaired, migraine-suffering, diabetic cancer survivor who is also the father of a cancer survivor and the widower of a cancer victim. So I have experienced more than my fair share of the American health care system.

Second, as a professional communicator with a passion for human services, I have spent decades working for health educators, nurses, doctors, hospitals, health advocates, and the people who pay for all of the above.

Third, I have been a small business owner for 16 years. In that role, my colleagues and I have evaluated, purchased, and paid for health insurance for our employees and our families.

Despite my and my family's health problems, I consider myself lucky. I have had health coverage for myself, my spouse, and my twin sons throughout my 30-year career. For the most part, the

policies have covered what they promised to cover, little haggling required. When the need was greatest, during my late wife's cancer battle, our insurance company, Anthem Blue Cross/Blue Shield sped approvals and denied not a single claim. I am very grateful for that.

On the other hand, I have some frustrations.

First, health care and health coverage inflation is small-business enemy number one. My company pays 80 percent of the employee premiums and 50 percent of dependent premiums. That is higher than typical for firms like ours, but it helps us to attract and retain good people. It also leaves us with a painful choice. Either the cost of health coverage cuts into our profits or, if we pass it onto our customers, it renders us less competitive.

Another concern is health insurance rate inequities. If you are a big business, you get pricing based on giant risk pools. I mean if you are a small company like mine, one staff health crisis can send your rates skyrocketing.

Let me give you one example. My late wife, Pamela Klein, was also my business partner. As such, she was covered by our company's health plan.

In the last year of her life, the billed charges for Pam's cancer care totaled \$300,000. A few months before her death, our health insurance renewal came up. Lo and behold, the quoted increase for the health insurance portion of our benefits plan was

a whopping 28 percent. That would have been devastating to our company and our employees.

When Pam died just short of the actual renewal date, I had our rates requested. With Pam out of the mix, the increase for the very same health coverage was just 10 percent. A 28 percent increase reduced to 10 percent because of one person who needed the care that we had paid for.

One additional concern I will share with the committee involves taxes and economic development. Because I own more than 2 percent of an S corporation, my benefits are fully taxed income. My employees' health insurance is a pretax company expense. Mine is fully taxed as personal income. In addition, my employees enjoy pretax spending accounts for their out-of-pocket medical expenses. I am the only person in the company who cannot participate. In this country where most jobs are created by small business, that is a very powerful incentive to do just the opposite.

Because we are so overly dependent on employment-based health insurance in this country and because we have allowed the denial of coverage to those with major maladies and pre-existing conditions, we have created an enormous chasm between haves and have-nots. One lost job, paired with one serious or chronic ailment, and you are a fiscal goner.

As Pam and I sat in renowned cancer centers in Indianapolis and Houston, getting pricey chemotherapy and sophisticated scans,

we were grateful for the caregivers, the coverage, the clinical trials, and the chance at survival. But we also felt guilty that we were getting this because we had money, connections, and jobs. Yet all the while, here in the greatest Nation on earth, others facing the same predicaments, citizens with the same right to life and health, were growing sick and dying with no chance whatsoever. Sadly, 5 years after Pam's death, more uninsured Americans than ever still are.

My point today is simple. We need health coverage for all. We need it now. But if Congress is going to settle on an employer-based system, then our small businesses need rates and risk pools and tax policies that make the provision of health insurance competitive and affordable. We need incentives to create and sustain jobs, not incentives to lay people off, close up shop, and go to work for large organizations with benefits that we can't compete with.

Thank you very much.

[The prepared statement of Mr. Hetrick follows:]

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Mr. Stupak. Thank you, Mr. Hetrick.

Mr. Walker, your statement, please.

STATEMENT OF FRED WALKER

Mr. Walker. Good afternoon, Mr. Chairman and Members. Thank you for having me.

My name is Fred Walker. I am the owner and operator of St. Petersburg Glass and Mirror in St. Petersburg, Florida. We fabricate and install flat glass and aluminum products for the construction, remodeling, and emergency recovery industries.

I founded the company in 1993 with two credit cards and some financial support from my family and a whole lot of help from my wife. Sixteen years later, I feel lucky to be a survivor of the current economic disaster in our community.

From day one I felt that each employee should have an option to be included in a health insurance plan. Over the years we learned that the plans are many. You have to shop for a new one every year in order to help avoid escalating costs, pre-existing conditions are never covered, and each employee is a unique case. As the costs have risen, the financial burden that our company can bear has been reduced. We currently pay 50 percent of our policy

for each employee. Percentages have changed as the policies and the premiums have risen.

I am here today because the economic downturn has had an effect on my business and, consequently, my ability to provide health care programs for my employees. 2007 and 2008 were boom years for St. Pete glass and mirror. The housing boom was followed by a commercial building boom. I had 10 glazers on staff, an assistant manager, and a secretary. Every day was busy, and we sometimes had more work than we could handle.

By late 2008, things started slowing down; and I saw the decline coming. I started laying off workers that September; and by February, 2009, it looked like I might have to drop our health insurance program altogether.

I mentioned that one day to my secretary, Mindy; and she immediately made an appointment to have a breast exam. The checkup she had been avoiding was breast cancer. I made the decision to keep our health insurance program even though the business continued to collapse. Mindy went into treatment and has fared well. However, our options are now very limited, and she has recently been refused a quote because of pre-existing conditions until she is cancer free for 10 years.

Please also note that I had a sudden bout of seizures from May, 2008, to November, 2008, which included several days in the hospital; and our recent quote did not exclude me. Apparently, I am a lower risk.

We have operated since June with a staff of four, myself, Mindy and two glazers. Everyone takes voluntary time off when there is no work. Gross income is roughly one-third of what it should be with a workforce that size. Mindy's treatment is over for now; and if she can find another option, I will go on my wife's policy soon. Rebuilding the company appears to be months or maybe years away.

I thought it was my duty to ask friends, family, and mentors their opinions on this issue as I represent them as well. I will paraphrase some of their responses.

Jack Grayson, owner of Seminole Realty, my cousin, had a 13-year battle with his departed wife, Peggy. She had cancer; and I quote, "The last few years, our copays and medication were \$3,000 to \$4,000 a month, and we had good insurance. What do the less fortunate people do?" Peggy passed on in 2000. Jack says we have to help those who can't afford the proper care.

John Wallace, a general contractor who is my best customer, says the bill passed in the Senate last week requiring businesses to provide health insurance will crush small business.

Lance of Lance's Moving Company, a customer, walked in off the street last week and we were talking about it. Lance related a story that his wife had kissed their grandson on the eye when he was a baby. She had a cold sore and accidentally gave him herpes simplex in his eye. There is no medical insurance available because of the pre-existing condition. Lance has spent his life

savings and is out of options. The boy is 6 years old.

Most of us use chiropractors, dentists, optometrists, and counselors, as well as medical doctors. These people are as educated and vital to our welfare as doctors but not covered under most medical plans.

A friend related a story about a local anesthesiologist who specializes in cardio-pediatric care. His clinic had liability insurance. The hospital he worked out of had liability insurance, but his annual premium for his personal liability was \$250,000 per year. That is triple liability insurance, and where is our money going?

Finally, my wife, Jane Walker, director of Daystar Life Center in St. Petersburg, who takes care of the least fortunate of us every day, says there are many people who choose between food, medication, and health care for their loved ones every day.

Something has to be done. We live in the greatest nation in the world, have the resources. This is an issue about people, not politics. Not money, but people.

Finally, I did find somebody who was happy with their health care. Pete and Pat Lamb are dear family friends, and they are both over 70 years old. Their combination of Medicare and coinsurance has provided for them well. Perhaps that is a starting point.

Thank you.

[The prepared statement of Mr. Walker follows:]

***** INSERT 2-1 *****

Mr. Stupak. Thank you, Mr. Walker.

Dr. Blumberg, your testimony please.

STATEMENT OF LINDA J. BLUMBERG

Ms. Blumberg. Mr. Chairman and distinguished members of the committee, thank you for inviting me here today to share my views on the health insurance challenges facing small businesses and their workers. While I am an employee of the Urban Institute, this testimony reflects my views alone and should not be attributed to the Urban Institute, its trustees, or its funders.

Small employers are at a significant disadvantage as purchasers of health insurance relative to large employers. The consequences are clear and consistent over time. Small employers are much less likely to offer health insurance coverage to their workers, and workers in small firms are much more likely to be uninsured. The barriers that small employers face in insurance purchasing come on multiple fronts; and as premiums continue to grow faster than wages, the declines in small employer-based coverage outpace the declines among large employers. Without significant reforms to how small group health insurance markets function and to the insurance options that are available to those without employer offers of insurance coverage, there should be no expectation that these negative trends will abate.

In 2008, only 36 percent of employers with fewer than 10 workers offered insurance to their workers, compared with 99 percent of employers with a thousand or more workers. Plus, declines in employer offers over time have been greatest among small employers.

The employer size differences are most dramatic when looking at employers with a low-wage workforce. Among employers for which at least half of their workers were low wage, only 18 percent of the smallest employers offered health insurance coverage in 2008 compared with 98 percent of the largest employers.

Between 2000 and 2008, the share of low-wage employers offering coverage to their workers fell almost 28 percent for employers with fewer than 10 workers but held steady for the largest low-wage employers. So the differential in offer rates between small and large employers is large and growing even larger, and the situation for low-wage firms and their workers is particularly severe.

Differences in employer offer rates and take-up translate directly into differences in insurance coverage for workers. Fully one-third of workers employed in firms of fewer than 25 were uninsured in 2008, compared with 13 percent of those employed by firms of a thousand or more. Smaller firms faced much larger administrative costs per unit of health benefit purchased. Administrative economies of scale occur because the cost of enrollment and other activities by plans are largely fixed, and

insurers have fewer workers over which to spread these costs in small firms. In addition, small employers experience greater year-to-year variability in medical expenses than do large firms because there are fewer workers over which to spread the risk. Insurers charge small employers higher premiums as a result.

Many States allow commercial insurers to adjust small employer premiums based on the health status and claims experience of their workers. Almost all States allow significant variations in premium rates as a function of the age of the workers, and many also allow adjustments based on the industry of the employer. These rating practices create additional difficulties for many small employers to obtain affordable coverage for their workers.

Another barrier to small employers providing health insurance is that the typical worker in a small firm is paid significantly less than workers in large firms. The lower wages of small firm workers imply that they are less able to pay for health insurance through wage reductions. Consequently, their employers are less likely to offer such benefits.

Workers in small firms that do not offer health insurance are often left with few options for insurance coverage. In the vast majority of States, there is no guarantee that an individual can purchase health insurance in the individual market; and even if nongroup coverage is available, coverage is frequently limited such that it may not be adequate to provide these workers with affordable access to necessary medical care.

A number of provisions in H.R. 3200 would provide significant assistance for small employers and their workers. The most important of these, in my opinion, are the establishment of a national health insurance exchange, along with significant reforms to insurance market rules, and the provision of subsidies to assist the low-income population purchase health insurance coverage through the exchange.

Not only would workers in small firms have a choice of insurance plan within the exchange, a situation extremely unusual today, but those that have been priced out of the market due to health issues or an older workforce may have affordable access to coverage for the first time.

In addition, all small groups would see a significant decrease in the year-to-year variability of premiums due to greater sharing of health risks. In addition, small employers can expect administrative savings from purchasing coverage through the exchange. Churning across policies and insurance-related job loss should be reduced significantly.

Finally, with the insurance reforms in the exchange alone, small firm workers would still be more likely to be uninsured than large firm workers because they tend to be lower income. As a consequence, the financial assistance and purchasing exchange based coverage and the expansion of eligibility for the Medicaid program that H.R. 3200 would provide are critical elements to expanding coverage for low-wage workers and their families. In

these ways, the proposed legislation would make adequate and affordable coverage available to many more workers of small employers than is the case today.

Thank you very much.

[The prepared statement of Ms. Blumberg follows:]

***** INSERT 2-2 *****

Mr. Stupak. Thank you all for your testimony and for being here today. We will start with questions.

Mr. Landauer, you said you have a congenital heart condition. I take it you have always disclosed that to the insurance companies?

Mr. Landauer. Yes.

Mr. Stupak. Then why have your rates dramatically increased? Have you started utilizing the service more?

Mr. Landauer. About 8 years ago, I had my third major operation that was about \$500,000. Basically, the past 4 years, they have gone up tremendously. I'm using probably \$40,000 a year just in a test to make sure that they don't need to do another operation.

Mr. Stupak. I guess what was confusing me a little bit, your rates have gone way up, but it seems like your surgeries were earlier. I was trying to put some correlation there. That is what I was trying to do.

Mr. Landauer. I understand that. Yes, my surgeries were 8 years ago, my last major surgery, and yet the rates started climbing 4 years ago.

Mr. Stupak. Mr. Hetrick, let me ask you a question along the same lines. Long before your wife passed on, you had insurance. And then you indicated when she got sick, the year she was really sick, you had a 28 percent increase. And when she passed on, you

asked them to recalculate; and it would have been only a 10 percent increase.

Mr. Hetrick. I am having trouble hearing you.

Mr. Stupak. Okay. You indicated you have had insurance while you were in business, 16 years, or whatever it was?

Mr. Hetrick. Yes. I started the company 16 years ago. I probably got the first insurance about 14 years ago.

Mr. Stupak. And then your wife became ill?

Mr. Hetrick. Yes.

Mr. Stupak. And she was part owner of the business and so she was a covered employee?

Mr. Hetrick. Yes.

Mr. Stupak. And then that 1 year your rates increased 28 percent?

Mr. Hetrick. 28 percent.

Mr. Stupak. And, unfortunately, after your wife died, you asked them to recompute; and they said, oh, it should have been maybe a 10 percent increase?

Mr. Hetrick. Correct.

Mr. Stupak. Just think out loud. I would think all those years when I paid for insurance, when I did get sick, I wouldn't see a dramatic increase because I have been paying all those years. That's why I have insurance. So you stabilize your costs and your risk, but that does not seem to be the case. It seems like in your case your big increase was because, unfortunately,

your wife got ill.

Mr. Hetrick. Right. The only thing that changed, the reduced risk factor that was quoted in the e-mail that came to us, was Pam died. So, since her death, rates have gone back to somewhat they are for other small businesses in America. Our rate increase last year was 19 percent.

Mr. Stupak. We have insurance and we think we build up a reserve so, when we do get sick, we have been paying all of these years, you would think they would pay the claim. And you said they were pretty good about paying, but then you wouldn't expect them to try to pick up that loss all in the next year or two.

Mr. Walker, you said your secretary -- and I compliment you for keeping the insurance so she can at least get some coverage here -- you said refused a quote. Was that your secretary trying to buy an individual policy or was your company -- your company refused the quote because she was on your policy?

Mr. Walker. It was an individual policy. Salesmen will walk in off the street and want to quote. I always felt it was my duty to do the best for my employees and do the best for the company. Okay, quote us another policy and see if you can beat what we have got.

This happened just a couple of weeks ago after we were all involved in this. This was a HumanaOne policy. A guy I had known just started selling health insurance. He came back and said, here is a quote for you, you, and you. Mindy, sorry, we can't

help you. So, guys, let's huddle up and talk about your health insurance. She confronted him about it; and he said, until she has been cancer free for 10 years, they wouldn't even give her a quote.

Mr. Stupak. So if you dropped her, she would be out of luck?

Mr. Walker. Completely out of luck. If she loses her job, if our company continues to shrink, she is out of luck. She has no options.

Mr. Stupak. Dr. Blumberg, please look at that chart number 3. Each of these are small businesses. They have indicated how they have struggled to try to keep things afloat, provide insurance, provide reasonable pay for their employees. If you look up at this chart, if you look in that book, Mr. Walker, what it shows is loss of future small business profits due to health insurance costs over the next 10 years. This chart shows that lost profits will skyrocket 17 times that of the 2009 levels if we do not enact health reform.

I would like to ask you about the impact of the current health care system on small business competitiveness. If we do not enact comprehensive reform for the small group insurance market, what will the impact of health costs be on small businesses off into the future? Does that chart reflect what is going to happen?

Ms. Blumberg. I apologize, Mr. Chairman. I don't see that.

Mr. Stupak. I misspoke. I'm sorry. Tab 11.

Ms. Blumberg. Okay, tab 11.

Clearly, the problem is that small businesses are already starting with one foot in the hole in terms of purchasing health insurance coverage. They simply are not efficient purchasers of coverage as a consequence of the way small insurance markets work and the marketing costs that are associated with selling coverage small group by small group in addition to the limitations with regard to risk pooling that there are in the current voluntary small group insurance market. So, already at a disadvantage, their costs of purchasing coverage are high relative to the wages of the individuals that they are buying coverage for.

And what has been going on trend-wise is that the cost of medical care grows faster than income, faster than wages. So it really is going to become increasingly difficult over time if nothing changes those trends and nothing changes the way that these markets work for small businesses to the point we are already seeing incredibly low rates of coverage among the smallest employers and it has got to -- it will get much worse over time until it is quite unusual for a small employer to be able to offer coverage at all.

Mr. Stupak. Thank you. My time has expired.

Mr. Gingrey for questions, please.

Dr. Gingrey. Mr. Chairman, thank you.

I want to say to all of the witnesses again, thank you for your testimony.

Before I begin my questions, I would like to raise two issues.

First, the troubles of our three business owner panelists are, unfortunately, not unique. Many in this country are finding it harder and harder to afford quality health care. In fact, Federal officials just yesterday announced that Medicare premiums for seniors will shoot up by over 15 percent, to \$110 a month, Part B premium.

Reducing the cost of health care in this country and making sure that those with chronic illnesses can access the same type of affordable insurance as healthy Americans should be two of our main goals. Unfortunately, the rising costs of health care is a universal problem and one that we do not solve I don't think with H.R. 3200.

Second, hearing your testimony today, I would like to suggest a market reform that I have long advocated that I think would benefit both those employees with chronic illnesses as well as their healthy colleagues.

High-risk pools -- we talked about this a littler earlier, but high-risk pools were created to offer those with chronic illnesses a place to purchase health insurance at affordable rates, regardless of their chronic conditions. By embracing high-risk pools in the States -- and I think 28 States actually have embraced them -- we have a chance to create a unique solution to a unique problem, namely, how a tragic illness can

disproportionately hit the health care costs of small business owners and their employees.

Mr. Chairman, I raise that concern because I truly believe that H.R. 3200 does little to address either of these concerns. Everyone in this body wants to reform what ails our current system. I wish we could find a way to combine that want for change into an opportunity to sit down and find a common solution to this problem.

I practiced medicine for nearly 30 years, Mr. Chairman, as you know; and I have seen firsthand how policies in Washington impact patients back home, for better or for worse. I, like many of my colleagues, just want an opportunity to share our experiences with you; and I would like to ask unanimous consent to submit this letter that 22 of your Democratic colleagues submitted to Speaker Pelosi back on July 16, 2009. I would like to submit that for the record.

Mr. Stupak. Let me just take a look at it.

Dr. Gingrey. Certainly, Mr. Chairman. I appreciate you looking at that.

While you are glancing at the letter, let me ask a question of Dr. Blumberg.

As you know, H.R. 3200 contains a surtax which would apply to any adjusted gross income exceeding \$280,000 a year for an individual and \$350,000 for a couple filing a joint return. The tax rates would range anywhere from 1 percent to 5.4 percent for

those earning more than a million. According to 22 House Democrats -- that is the letter that I submitted to the chairman for inclusion in the record -- these taxes would fall largely on small businesses and manufacturers. They wrote in a letter to Speaker Pelosi, and I quote, that many successful small businesses, the very kind that should lead in creating jobs and help us emerge from this very recession, will be taxed at over 50 percent.

Do you agree with these House Democrats that we should not tax small businesses?

And, before you respond, I want to get the chairman's response to my unanimous consent request.

The Chairman. Could the gentleman state his unanimous consent request?

Dr. Gingrey. Chairman Waxman, absolutely.

The request is that we submit the letter that was written to Speaker Pelosi on July 16, 2009, by 22 House Democrats regarding this issue, this concern of the surtax and what adverse effect it would have on small businesses and job creation in this country.

Mr. Stupak. I have no objection.

But again, as Ms. Blackburn pointed out before, there is no surtax on small businesses. The surtax is on 1.2 percent. In fact, I think in Mr. Braley's district, 99.3 percent of the people would not see any increase. So there is no surtax.

We will accept the letter that you would like to submit for

the record.

[The information follows:]

***** COMMITTEE INSERT *****

Mr. Stupak. It goes on to say, these 21 Members, that health care reform should be good for small businesses, and as long as small businesses are not unfairly burdened by H.R. 3200, we are confident that it can be. And I think we all agree we do not want to burden small businesses.

Dr. Gingrey. Mr. Chairman, I appreciate you accepting that letter for the record.

Dr. Blumberg, if you would respond.

Ms. Blumberg. My understanding of the bill as it stands right now is consistent with that of the chairman's, that this component, this financing component of the bill, would not impact, would not be a tax on small business income. It is a tax on high-earning individuals; and, as such, I don't have any objections in terms of the imposition of that type of tax. But I think there has been some misunderstanding of how it would be imposed.

Dr. Gingrey. Dr. Blumberg, thank you. We will give you a copy of that letter that was submitted and will be included in the record for your perusal at a convenient time for you to do that.

I know it is subject to interpretation, but, as Ms. Blackburn pointed out, so many of these small businesses are not C corporations, they are sole proprietorships or S corporations, and they file as individuals. And basically no matter what number that might be -- the chairman has indicated it is a very small

number -- but my question -- and maybe I can direct it to our small business witnesses as well -- if indeed, in addition to having to pay these astronomical increases in your health insurance premium year after year after year, you also had to file as an individual these high surtaxes from 1 to 5 percent on your income above \$280,000, what adverse effect would that have on your ability to not only hire people but continue as a growing concern?

Maybe we can start with Mr. Landauer.

Mr. Landauer. I'm trying to understand your point. I file an individual income tax return, and I am also an S corporation, but that is completely different from my individual income tax. I don't see how it would be affected by your saying --

Dr. Gingrey. Thank you, Mr. Landauer.

Mr. Hetrick, you mentioned in particular the problem you have with regard to the way your health insurance premium -- you have to pay. You don't get a tax break at all.

Mr. Hetrick. I am also an S corporation owner, and so I have to channel all of the business's income through my personal return. Part of that income is the health insurance premium because it is taxable income to anyone who owns more than 2 percent of an S corporation.

Dr. Gingrey. Mr. Walker, I have to yield back. The chairman has been awfully generous with the time, but I have run out of time. I hope to have a second round.

Mr. Stupak. Chairman Waxman for questions.

The Chairman. Thank you, Mr. Chairman.

The surtax that is in the House bill is a tax on high income individuals, and there is a joint tax committee that said this surcharge would have no impact on 96 percent of small business owners. It would effect only the highest income, 1.2 percent of taxpayers. So I think we are getting a misinterpretation of what the bill provides. But let's look at the reality. Health care costs are going up. They are going up overall. So how do we handle those increases in costs?

If you are in a small business, the insurance companies are saying to you if somebody in your business gets sick, we are going to control the costs by making everybody else in that business pay a higher premium. That is not controlling costs, that is shifting costs onto people who are vulnerable and who have no leverage to fight back.

We had a hearing last week, and there was a man by the name of Nathan Wilkes, and he worked for a small company. He loved that company. But he had a son with hemophilia which is an expensive, lifelong blood clotting disorder. So the insurance company responded by raising the costs of insurance for everyone at Mr. Wilkes's company. It is the same story we are hearing from the three of you. Mr. Wilkes described his son's medical condition as a bomb that went off, but everybody else was collateral damage because they couldn't have insurance any more when it became unaffordable. That is no way to hold down health

care costs, that is simply shifting the costs.

The shocking thing to me is that what your insurance company did to you, Mr. Landauer, Mr. Hetrick, Mr. Walker and Mr. Wilkes's situation, it is perfectly legal. As far as they are concerned, it is the smart way to do business, but it is not acceptable in order to get people covered.

Now, Mr. Gingrey said what we ought to do is have these high risk pools. Well, as I have looked at high risk pools around the country, it is hard to get into them. And then they put a lifetime cap. Sometimes these lifetime caps keep you from ever getting the services you need. This can't be the solution, to give people a lifetime cap when they are sick.

Mr. Gingrey said you are going to pay a tax which I think he was wrong in saying to those of you in small businesses, but somebody is going to pay a tax. It is going to be higher income people, but somebody will have to pay more money. If they pay more money, which means we can then bring more people into the insurance and have basically everybody covered, we are not going to require in addition to any tax, that people pay extraordinarily higher insurance costs every year if somebody gets sick. That is going to be outlawed. We are not going to let the insurance companies do that any longer.

Mr. Landauer, do you think that insurers should be permitted to charge higher rates to companies in which one person gets sick or has a chronic condition? It is an obvious question. Obviously

not. You know from your own experience how unacceptable it is. Mr. Hetrick, you described your own experience with an insurance company imposing steep premium increases due to your wife's health status. I assume you think it is wrong to allow that to happen, even though it is legal.

Mr. Hetrick. Mr. Waxman, I am the son of a life insurance executive, and so I understand underwriting.

If we are going to allow the underwriting based on groups of 15 people or 13 people or 3 people, or whatever Mr. Landauer has, then the underwriter is going to say, gee, you need to crank up the rates. To me the only way we can fix this is put everyone into a large group. From my personal perspective, I would love for the large group to be 300 million people and we rate the policy that way. You folks in Congress haven't seemed to quite get to the 300 million people answer yet, which would be universal coverage and single payer.

If we go to a public option, I guess what I am asking you is could we come up with a way that small businesses could group together into large risk pools so I am not dependent on my 13 people and he is not dependent on his 4.

The Chairman. Absolutely. It wouldn't be a public option, it would be pooling people together who can't get insurance because they can't afford it, can't get insurance because their employer can't afford it, can't get insurance because they have pre-existing medical condition. All of these people would be

pooled together and they would go to an exchange and they would be able to choose a private insurance policy, maybe another private insurance policy, maybe a third private insurance policy, and perhaps a public insurance policy. It would be their choice. But by pooling people together in this exchange, we are in effect pooling the risk and not putting it on a small group, and in that way we make the system make sense. Allowing insurance companies to punish businesses because someone got sick, especially a small business, makes no sense. And people in businesses buy health insurance so they will be covered if they are sick. And small businesses shouldn't have their success impinge on whether an employee gets sick and be able to pay insurance and continue in business. Thank you.

Mr. Stupak. Thank you, Mr. Waxman.

Mr. Braley for questions, please.

Mr. Braley. Thank you, Mr. Chairman.

I want to talk briefly about this concept of high-risk pools; and I am referring to a report recently called High Risk Insurance Pools: A Flawed Model for Reform, dated September 29, 2008. Here is the history of high-risk pools:

The report notes that high-risk pools have been around for over 30 years and currently exist in 35 States, but they only cover 207,000 Americans. The biggest barrier to enrollment is cost. High-risk pools are inevitably expensive, because all of the enrollees have medical conditions and could potentially result

in costly medical bills, which means the pools cannot spread the risks among low-risk and high-risk individuals.

And the report notes specifically the State of Florida has a high-risk pool that costs \$17,517 per enrollee, which is nearly 50 percent of the income of those enrollees. And the problem is that most of these high-risk pools are already heavily subsidized. Because if you take out of your group of insureds those people who add the most cost to the pool you are insuring and put them with other people who cost a lot of money, it is going to take an extraordinary amount of money to cover their health care costs. And that is why these high-risk pools are already heavily subsidized.

So you can't come in and heavily subsidize a heavily subsidized high-risk pool that makes any sense, and that's why many of these subsidies already cover about 50 percent of the pool and an expansion of those programs could cost as much as \$100 billion.

I think the last word in this report says, in every State that covers the uninsurable with a high-risk pool or offers coverage to the uninsurable, the very condition that made you uninsurable will be included as a pre-existing condition in the high-risk pool, usually for 6 to 12 months. That is a conversation stopper for most people. And if you have been diagnosed with cancer, you cannot wait 6 months to start your treatment.

That's what is wrong with expansion of high-risk pools as an alternative to doing what we are trying to do, which is create reasonable competition in the marketplace and more options for consumers and small businesses owners.

Mr. Landauer, I want to make sure people understand the reality of what you just described, because insurance terminology can be very confusing. But, as I understand your testimony, your firm has had to double its deductible for individual and family coverage in each of the last 2 years; is that correct?

Mr. Landauer. Yes.

Mr. Braley. And they are currently paying \$8,000 for the individual policy and \$16,000 for the family plan?

Mr. Landauer. Yes.

Mr. Braley. That means before any insurance coverage kicks in for your employees, if they are under the individual policy, they have to pay \$8,000 out of their pocket?

Mr. Landauer. As the shop owner, I pay half of that right now.

Mr. Braley. Absolutely. And thank God for that and your generosity.

My point being, until you and your employees match that deductible of \$8,000 for individuals or \$16,000 for family members, that company has been collecting premiums of between \$400 and \$800 a month and hasn't paid a dime?

Mr. Landauer. Correct.

Mr. Braley. Mr. Chairman, I think that is what is wrong with our health care delivery system and the way we pay for it in that we expect so much out of hard-working Americans like Mr. Landauer or Mr. Hetrick, Mr. Walker, and millions of other small business owners, who simply want to have an opportunity to provide their employees with the best coverage possible at an affordable price. That is why the obligation on us is to find a way to give them the options they need to do that.

I think if we have the slide that is part of tab 10, this map shows what is wrong with the lack of competition in America right now. It shows among the darkest blue the States where 80 to 100 percent of the market is dominated by two carriers. The light medium blue is 70 to 79 percent of the market dominated by two carriers and the light blue, 60 to 69 percent.

When you don't have competition in the marketplace, it goes completely contrary to the economic principles that you all have to deal with every day in your businesses. And we have got a health insurance industry that is supply driven and with limited competition, and that is the problem we need to solve.

I yield back the balance of my time.

Mr. Stupak. Thank you, Mr. Braley.

Mr. Dingell for questions, please.

Mr. Dingell. Thank you, Mr. Chairman.

First of all, members of the panel, my thanks and my compliments on your excellent testimony.

Mr. Landauer, according to documents obtained as a part of this committee's investigation, your insurer, Wellmark, offered your business a 41 percent increase in premium costs this year; is that true?

Mr. Landauer. Yes, it is.

Mr. Dingell. How then are you going to budget or even stay afloat when you must absorb such huge unexpected increases in costs?

Mr. Landauer. By raising the deductible.

Mr. Dingell. So, in raising the deductible, you reduce the premium?

Mr. Landauer. Correct.

Mr. Dingell. Had you planned for this 41 percent increase in premiums?

Mr. Landauer. No, I had not budgeted for it.

Mr. Dingell. So let's assume that your insurance costs will rise 200 percent in 1 year. What then would you do?

Mr. Landauer. Well, right now, I am taking myself off of insurance; and I do not think it will rise. I think we will pay less next year.

Mr. Dingell. So you are indicating your cure for this is to remove yourself from insurance coverage?

Mr. Landauer. Correct.

Mr. Dingell. Now, Mr. Hetrick, you discuss the importance of attracting and retaining good workers. How important is the

ability of small businesses to offer affordable health coverage to their employees to recruitment and retention of efforts?

Mr. Hetrick. I think it is incredibly important. We compete every day with Eli Lilly & Company for talent in our community, and they have a remarkable benefits package. And for me to get that talent and keep them versus that big corporation, I have to have wonderful benefits.

I will tell you, Mr. Dingell, I have had to lay off seven people this year in order to retain the health benefits for those of us who remain. So that is one-third of my workforce gone, salaries gone, jobs gone, in order to continue to continue paying 80 percent of the health care premium and 50 percent of dependent coverage. So it is incredibly important to us.

Mr. Dingell. I would note here that our committee's investigation in the small business premium situation has revealed some staggering rate increases. Six insurers were surveyed by the committee. Two reported annual premium increases of over 200 percent, two reported several increases of over 100 percent, and all reported numerous double digit increases.

Now, it is to be noted these astronomical increases are often related to change in health status of employees or other factors that you gentlemen, as employers, cannot control, like ages of workers or the fact that many of your employees might be women. And this has led, as I have indicated, to 200 percent increases in some instances. I find this terrifying.

Now, Mr. Landauer, again, I understand your deductible is \$8,000 for an individual policy and \$16,000 for a family policy; is that correct?

Mr. Landauer. Correct.

Mr. Dingell. Now, Mr. Landauer, you expect this to double for your plan next year; is that correct?

Mr. Landauer. If I keep everything else the same, yes.

Mr. Dingell. Would you want to amplify on that last comment, sir?

Mr. Landauer. With my medical costs this year alone, they are going to be around \$40,000. It doubled last year because they were \$40,000. It doubled the year before, and they were not even \$40,000.

Mr. Dingell. Now, this I find to be a very troublesome situation. I would like to get beyond access to health insurance and to discuss the importance of access to care. You provide access to health insurance coverage for your employees, but I would guess that with the rising costs of the plan, largely realized through a skyrocketing deductible, that access is hindered for your employees. Now tell me what are you going to do next year about the plan which is, as you say, is going to double?

Mr. Landauer. I am going to take myself off of the plan.

Mr. Dingell. As your deductibles increase, do you hear concerns from your employees about their ability to confront and afford these rising costs that the deductible increase imposes

upon them?

Mr. Landauer. I hear more about the monthly cost associated with it.

Mr. Dingell. Dr. Blumberg, if you please, can you speak to inefficiencies in the current health insurance market and the savings that can be realized from addressing them?

Ms. Blumberg. Well, specifically with regard to small businesses, they are inefficient purchasers, as I mentioned earlier, of health insurance coverage as a consequence of the fact that there are very high fixed costs involved with selling insurance coverage. And so when you are taking a large amount of fixed costs and spreading it over a small number of people in a small firm, the administrative costs associated with selling that coverage are very high relative to the benefits that people are obtaining. So that is one inefficiency.

Another inefficiency is that over a small risk pool, a small number of people, any individual who has extraordinarily high costs associated with their health care needs can have a very substantial impact in a particular year on the expected cost of that group. As a consequence, we see these big swings in premiums from year to year for small group purchasers. And, obviously, individuals would be willing to pay something in order to spread the costs over a period of time in order to smooth out those year-to-year variances, but insurance is not sold more than a year at a time, so they are stuck with the small pool over which to

spread their needs.

Another inefficiency is, with these big swings of premiums, we see a lot of churning every year in insurance plans by small employers. So when they are faced with a big increase, they are constantly trying to find a better price. As a consequence of that moving around to different plans, they are also creating higher administrative costs, which is a dead weight loss efficiency-wise.

So what we are hoping with health care reform is to address these needs on both of those fronts, to first lower administrative costs by allowing small group purchasers to purchase coverage in the context of a national health insurance exchange. That should both lower administrative costs because some of the marketing costs, the enrollment costs associated with insurance could be done centrally, reducing those costs overall; and marketing costs in particular could be lowered that way through the exchange.

In addition, by purchasing through a health insurance exchange, we would have a situation where the costs associated with each small employer could be shared in terms of risk pooling so that the risks would not be felt when there is a big change in a particular year with a small number of enrollees.

In addition, if you are allowed to stay within the health insurance exchange over time, even if you change jobs, and because there would be less year-to-year variability in the premiums, we would see a reduction in the churning that we see now for small

businesses going from plan to plan.

In addition, there are some potential inefficiencies associated with individuals picking jobs as a consequence of the health insurance choices they face; and if we eliminate the disadvantage that people face by going with a small employer as a consequence of the more limited insurance options there, then people can pick their jobs based on the best fit for their skills instead of insurance choices which does potentially create inefficiencies in the job market.

Mr. Dingell. My time is up, but I thank you and all of the panel members.

Mr. Walker, the fact that I didn't ask you any questions does not mean that I'm not impressed with your testimony or don't appreciate your presence here.

Gentlemen and lady, thank you very much.

Mr. Walker. Thank you.

Mr. Braley. [Presiding.] The Chair thanks the distinguished chairman emeritus and recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. Green. Thank you, Mr. Chairman.

From the testimony we have heard today, it is clear that skyrocketing health insurance costs are crippling small businesses, and how can we expect small businesses to compete in the market when they have to pay 18 percent or more per employee than larger corporations for the same health care plan?

Mr. Hetrick, you stated in your written testimony that either the costs of health care coverage cuts into your profits or, if we pass it along to our customer, it renders us less competitive. In the economic downturn like the one we have been experiencing, have you been able to pass increased health costs on to your customers, or have the costs come out of your bottom line?

Mr. Hetrick. Could you repeat the question?

Mr. Green. Particularly in tough economic times like we have, have you been able to pass any of those costs -- increased health care costs on to your customers, or does it go to your bottom line?

Mr. Hetrick. No, we have tried to keep our rates competitive with what we have in the market, so it just takes down our profitability. And, quite frankly, we haven't made a profit for the last 2 years. I am covering it out of my pocket.

Mr. Green. So my next question is very easy. It makes it real difficult to grow if you are not showing a profit for 2 years?

Mr. Hetrick. That's correct.

Mr. Green. We have heard insurance premiums for small businesses are highly volatile, which hampers the business' ability to budget. Like I said, in my own experience years ago, premium increases can vary from year to year and are driven by factors that small businesses have no control over.

Without reform, small business health costs will continue to

skyrocket. In the absence of meaningful reform, businesses will pay nearly \$2.4 trillion in health care costs over the next 10 years, and they will lose \$52.1 billion in profits, and their workers, their employees, will lose \$834 billion in wages.

Dr. Blumberg, do you think, can America's small businesses remain competitive if we do not reform the health insurance market?

Ms. Blumberg. I think there are real dangers, because I believe that the rate of small business provision of health insurance will inevitably go down over time, continuing the trends that we have seen, that it is going to be very difficult for small employers to compete for labor without some alternative source of insurance coverage for their workers. Because if they are competing for labor with larger businesses who can do a better job of providing coverage, it is going to be very difficult for them.

Mr. Green. Mr. Chairman, in my experience, we were a small company and we did compete with large employers, some of which were across State lines, so they were under Federal law, whereas our company was typically under State law. And as a State legislator for many years, we couldn't control the cost of health care in Texas, and maybe that is why we had the highest number and the highest percentage of uninsured.

We have a lot of small businesses who can't do it. Somewhere along the way, we have to provide that because -- provide that assistance and that reform.

I think H.R. 3200 has some problems, but I think also we need to deal with the small business issue that larger companies can bargain and get lower rates where smaller businesses can't. And it can't be done even with State coops. It has to be done on a national basis.

Thank you, Mr. Chairman, for your time. I appreciate our witnesses being here today.

Mr. Stupak. [Presiding.] Thank you, Mr. Green.

Ms. Schakowsky, for questions please.

Ms. Schakowsky. Thank you, Mr. Chairman; and thank you so much to our witnesses.

It is almost a rule in politics that we sing the praises of small businesses in our country as an engine for our economy, as the biggest creator of jobs. But I think it is high time now that we make it possible for you to continue to be those things, and the testimony that you have given has been very dramatic.

I wanted to ask you, Mr. Landauer. You said, what are my options? You said, pay for my own medical costs -- I am assuming that is what you are saying -- in which case I would be forced to sell the business. Is that what you are talking about?

Mr. Landauer. Correct.

Ms. Schakowsky. And so you are going to sell the business?

Mr. Landauer. If I have any major problems that require extra expense, my only option is to sell the business, because the doctors are going to require money.

Ms. Schakowsky. My goodness. You said, or maybe move to Canada. We had a panel of witnesses last week that were advised to get a divorce so that the wife could go on Medicaid and be able to pay the family expenses. I mean, this is the United States of America, and to suggest things or leave options like moving to another country or getting a divorce seemed totally unreasonable.

I wanted to mention one other thing. We had research from the National Women's Law Center that said that insurers who practice gender rating charged 40-year-old women from 4 to 48 percent more than 40-year-old men; and the investigation of this committee suggested that gender discrimination was even worse. It said, according to internal insurance company data uncovered in our investigation, the exact same policy for a healthy 23-year-old woman may cost 143 percent more than a healthy 23-year-old man.

I wondered if any of you were aware of this gender discrimination in setting rates, if it ever had to become a consideration in hiring? I would be interested to know.

Mr. Walker.

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[3:02 p.m.]

Mr. Walker. I have never used that as a consideration in hiring. But certainly I have encountered it. It has to do with pregnancy. When women are in the years that they might get pregnant or have those sorts of expenses charged against the insurance company, their rates are considerably higher, sometimes as much as double.

Ms. Schakowsky. Yeah. Mr. Hetrick?

Mr. Hetrick. I will share with you, on the issue of gender, a fairly funny story, sad story. I am now remarried. My current wife runs a national sorority. She has 47 employees at her headquarters, where she is CEO; 45 of them are female. Her insurance rates are so high that she cannot even think about insuring the dependents of those employees, because you are insuring 45 women, most of child-bearing age. So again it comes down to actuarial tables and underwriting what are the expenses of women versus men. There is a difference. And they sock it to you.

Ms. Schakowsky. It could also be who sets the rules. But that is beside the point.

Mr. Landauer, have you ever encountered that, or knew about the gender discrimination?

Mr. Landauer. I did not know about gender discrimination. We have had women who have been part of the company. The last woman we had was about 12 years ago. And insurance has become a tremendous mess in the past 5 years with us.

Ms. Schakowsky. Yeah. I want to ask you, Dr. Blumberg, another shocking example of insurance company discrimination comes from the individual insurance market. In the individual market, some insurance companies consider it a preexisting condition when a woman has had a C-section or been a victim of domestic violence, which can justify denying coverage altogether. From a policy standpoint, is there any good public policy reason why a victim of domestic abuse or a woman who delivered a baby by C-section should be shut out of the private health insurance market?

Ms. Blumberg. I don't think there is any good public policy rationale for it. These are all decisions that are based on expectations of future health care spending. And in a system where individuals can make decisions about going in or out of the health insurance system, where you don't have everyone in all of the time, people will have a tendency to purchase coverage when they think they are going to need care.

As a consequence of this voluntary system, current regulations allow the insurance to set these rates to protect themselves against that type of adverse selection. And that is one of the main reasons why it is important under reform to have an individual requirement of health insurance coverage; because

once you have that in place, once you have everyone or almost everyone in the system, you can prohibit those kinds of practices and stop people from being rated up as a consequence of future expectations.

Ms. Schakowsky. Thank you. And I want to thank the business owners for doing absolutely all you can to make sure that your employees have the coverage that you need.

And I see at least in two instances, you know, Mr. Landauer and Mr. Hetrick have really personally suffered from the rules of the game right now. Actually, all of you have. So we will do our best to address that. Thank you. I yield back.

Mr. Stupak. Thanks. I think we have completed one round. I know Mr. Gingrey has a question or two. I probably do. If anyone else, we will go another round with this panel as long as they have time. Before I go there, I guess I better go to Mr. Burgess first.

Dr. Burgess. I will go second round.

Mr. Stupak. Okay. Mr. Gingrey, go ahead.

Dr. Gingrey. Mr. Chairman, thank you very much. And I did have a few things that I wanted to ask the witnesses. Obviously, what our concern here and what your concern and what you expressed so clearly is the cost of providing health insurance to your employees in these small companies.

And, you know, we are talking about in H.R. 3200, and then the two bills over on the Senate side, some pretty massive changes

in our health care system and health insurance delivery system, something that is going to cost at least, I think conservatively, a trillion dollars over 10 years.

And the point I wanted to make and the questions I wanted to ask and see how you feel about this, certainly there are those of us on the Republican side that feel that we have some good ideas too, and that we would like to share, that we would like the Majority and the President to listen to some of these suggestions.

And let me ask a couple. In regard to your small businesses, and I want to ask all three of you -- Mr. Walker, I will start with you, because I think that is where I ended during the first round. But the idea of maybe your glass company or Mr. Landauer's muffler shop, or Mr. Hetrick's communications shop joining together with other small companies, where a pool of a thousand or more created, and that you can actually purchase -- shop for affordable health care for your employees with this larger pool, lower administrative costs, spreading the risk -- we refer to it sometimes as association health plans. I would like your opinion on that as a cost saver.

I would also like your opinion, Mr. Walker, you mentioned the anesthesiologist in Florida that was paying I think something like \$275,000 a year for medical malpractice insurance. And CBO has estimated with malpractice insurance reform, tort reform, product liability reform, that we could save \$54 billion over 10 years. That is a nonbiased CBO estimate, and the President has said it

ought to be included. And yet none of these bills -- nowhere in H.R. 3200 is there anything about medical liability reform.

And then lastly, you know, Chairman Waxman was concerned about cost shifting. I have a concern that H.R. 3200, it shifts costs, but it shifts them on small businesses during an economy where we need job creation. And this letter that I submitted for the record, the 22 Democrats stated many small businesses, the very kind of businesses that should lead in creating jobs, would be taxed at over 50 percent. If this were true, would that concern any one of our three business owners? Mr. Walker, I will start with you.

Mr. Walker. To that last question, certainly not. I have never made that kind of money. And I think the number that came out was 1 percent of us.

As to pools, let me say this. Obviously, I am not in the insurance business, but if you spread the risk you are going to lower the cost to the employee. So as for a risk pool, I wouldn't say a high-risk pool, just a pool in general, let's put some of those healthy young people behind you in the same pool with us so we can lower the costs.

Next, I have a really good example of something you are talking about. There is a duplicity in Florida, I don't know about the other States; I have to insure my employees with workers comp insurance while they are at work. So there are two systems of health insurance. Now, a few years back we had a couple

accidents on the job. I can't have my guys on a construction site unless we have comp. So my answer to fixing that problem was go to an employee leasing program. Employee leasing program, technically my people don't work for me.

Dr. Gingrey. Mr. Walker, excuse me for interrupting you, I am about to run out of time. If you don't mind, address the two questions about association health plans and medical liability reform, and then quickly let's go to Mr. Hetrick and Mr. Landauer.

Mr. Walker. I would love to see liability reform. That anesthesiologist is insured three times. That is wrong.

Secondly, what I was getting at with the workers comp question is the spreading of the risk. That is how I was able to retain workers comp.

Dr. Gingrey. Mr. Hetrick?

Mr. Hetrick. I am nowhere near the income level to pay for any kind of tax. I absolutely agree that we need to have larger risk pools. The prescription that you guys come up with for that, I don't know which one is best. I don't know if it is the exchanges, I don't know if it is cooperatives, I don't know if it is a public option, I don't know if it is universal payer. I know it needs to be done and I know the tax policies need changed so that people who are creating jobs don't get punished for it.

Dr. Gingrey. Absolutely, Mr. Hetrick. And Mr. Landauer, real quickly.

Mr. Landauer. I agree with Mr. Hetrick on both his answers.

We do need some sort of reform with the insurance, whether it be nationwide, whether it be the single-payer plan, whether groups. And am I allowed to ask a question?

Mr. Stupak. Sure, go ahead. I don't know if any one of us can answer it.

Mr. Landauer. Those of you who are against a government-run plan, are you also against Medicare for the seniors? Because to me, that is the government-run plan. So do we do away with Medicare for the seniors?

Dr. Gingrey. Mr. Chairman, I will be glad to try to take a stab at that if you will allow. No, we are not. Those of us who are against throwing the baby out with the bath water in regard to this current reform of our health care system are not opposed, not one bit, to Medicare. And many of us sitting on this panel are now eligible for Medicare. And we want it not to be weakened to pay for something else. We want it to be strengthened.

We are concerned very much about the viability of Medicare, which within 7 years will be almost insolvent. And we have \$35 trillion worth of unfunded liability over the next 50 years in the Medicare program. So when we see \$500 billion taken out of the current Medicare system, particularly Medicare Advantage, to try to insure 15 million people, many of whom are young and healthy and don't want first dollar coverage, it just doesn't make a whole lot of sense. But thank you for your question.

Mr. Stupak. Let me give you the real answer now on that one.

Actually, it was an amendment in the committee. No one voted to cut out Medicare. And under 3200 we expand Medicare by paying for preventive testing, mammograms, colon cancer, diabetes, things like this. Plus, we try to close that doughnut hole on prescription drug coverage because you have that doughnut hole. I don't think anyone is against that. It is just how are we going to structure it. That is why we appreciate all of your testimony, because small business is one of them we have been struggling with, how best to do it; 3200, three bills, they will go through changes, we will have a final vote in the House maybe later this month or early next month. And then it has to go to Senate. And after it comes back from Senate we have a conference. And hopefully after that, hopefully by December we have a final bill.

I just urge all members to take a look at the reality of the bill when we get to that final point in December and cast a vote according to all these hearings we have been having.

Mr. Burgess hasn't had a chance to ask a few questions. I am going to go to Mr. Burgess, and then I have a few questions, and then I think Mr. Braley, and then we will wrap it up.

Mr. Burgess.

Dr. Burgess. Thank you, Mr. Chairman.

Mr. Landauer, just to further expound on your observation, the issue before us is not -- right now the Federal Government owns about 50 percent of the health care dollars that are spent in this country. And the question is not do we roll that back, but

do we move more of that dollar into the realm of the Federal Government. There are several of us who are concerned about that.

I am a physician by trade, ran a small business for almost 25 years in my community. So I understand a lot of the difficulties that have been discussed today. I have lived them firsthand. We had a woman testify in front of this committee, or maybe it was the Health Subcommittee, who was a pediatrician in Alabama. She got my attention because she went into practice the same year I did, 1981. There is something that happens in the medical practice where you have got to pay attention to what is called the payer mix. That is, if you have patients who are covered by Medicaid and Medicare, those Federal programs, as good as they are, and many people depend on them, but as good as they are, they don't cover the cost of delivering the care in the physician's office. So the doctor is going to have to make up that cost somewhere else. And typically, with as bad as the health care profiteers, United, Cigna, and Aetna are, they do tend to allow that practitioner to be able to cover that cost that is not paid for by -- that is not covered by Medicare and Medicaid.

Medicare is designed for doctors to go broke very slowly, but they still go broke. Medicaid doesn't have that same safety mechanism, so you go broke much more quickly.

In this individual's case, she had 70 percent of her practice was now Medicaid in a rural Alabama pediatric practice. And she said she is borrowing from her retirement fund to keep her doors

open.

I will tell you, having had some experience with that, and you may have encountered this yourself, if you lose money on every transaction, very difficult to make it up in volume. And that is what she found herself doing. I felt like coming across the podium and saying, Please stop that, because ultimately you are just going to spend down your retirement plan and then you are still going to be in the same problem you were before. Her problem was too much of her practice was now the public option, if you will, Medicaid.

So that is what worries a lot of us. Are we going to erode the ability to be able to continue for doctors around the country to keep their practices open if we go to a larger government share.

There are obviously other things that are involved in that, and you have heard many of them today. But that in brief would be my answer to your question. Nobody is talking about rolling back the part of the public option, if you will, the part of the public insurance that already exists. It is what it is right now, and no one thinks that that is going to be removed.

I would just like to ask -- and I apologize, Mr. Chairman, for being late. I was at the National Institute of Health for most of the day. Reading through the testimony -- and I apologize, Dr. Blumberg, I don't think I had yours -- but just the testimony of our small business owners, it seems like there is a

recurrent theme is that pooling came up as an issue, and the ability to pool your employees or your people that you are looking to insure. The concept of association health plans, where you can pool not just from within your own neighborhood, but if it is a group of florists or realtors, even doctors' offices or dentists' offices, you can pool with like business models even around the country to get a much larger patient pool.

Very difficult to get the young folks behind us to sign up because we are talking about an insurance payment that essentially equals a bass boat, and they are healthy and the bass are biting, so I don't blame them for not wanting to buy insurance. But if you can pool and keep those costs low, that is a way to bring more people in. And I think one of you said it, you broaden the base and lower the rate.

Same thing that we should be focusing on for taxes. But are you familiar with the concept of association health plans? It is something that has been talked about up here predating my arrival in Congress. But have any of you explored that as a possibility or an option? I mean you can't do it now because we don't let you. But if we did let you, would it be an option that you would consider?

We will just go down the table. Mr. Landauer.

Mr. Landauer. Yes, that would be an option that is very much considered. My brother is an accountant in the State of Iowa. And he belongs to a State group of accountants for insurance

purposes only. And that keeps his costs low on insurance. And if they can do that for the accountants in Iowa, they should be able to do it for the muffler shop owners not only in Iowa, but nationwide. So yes, that is a very good option.

Dr. Burgess. I tend to think of that as ERISA for the little guy. And if it is working well in Iowa, wouldn't it also be great if he could also partner with accountants in Missouri and Oklahoma and get an even larger pool from which to then negotiate the rate with the insurance company?

Mr. Hetrick, do you have a thought on that?

Mr. Hetrick. You know, I have talked about the risk pool here is a good idea, a bigger risk pool for businesses. It still leaves us with an employment-based health care system. And it doesn't help the people who lose jobs or change jobs. So it may be part of the answer.

It can't be the only answer, because I have laid off people this year. And the biggest concern about laying people off is that the COBRA runs out after a while. And the COBRA is incredibly expensive. And I feel incredibly guilty laying people off, but I had to lay some people off in order to keep the other people's health benefits coming.

Dr. Burgess. I am going to get cut off by the Chairman here. You are correct about your observations on COBRA. My opinion is there are things that are within our purview and ability to modify that system and improve that system so it is not so injurious.

But what about the effect of having an 8 percent payroll tax on your looking over the horizon and hiring back employees when the business improves? If 3200 has an 8 percent employee tax --

Mr. Hetrick. If all health care is paid out of tax dollars?

Dr. Burgess. If 3200 were to pass as is today. Certainly not all health care is paid for out of tax dollars, because we still leave 17 million uninsured under 3200.

Mr. Hetrick. I think you are now down to the fundamental question: Is health insurance a responsibility of society to the people who are members of it? And do we all have the shared obligation?

If you want to talk about -- all the solutions that we are looking at are trying to find some subset of society to pay for another subset of society. We are asking now for businesses to pay for a large portion of society. We ask for the government to pay for some portion of society.

Dr. Burgess. We don't pay for it. We take the money from you. We don't earn any money on our own. We produce nothing. You may not have noticed that today.

Mr. Hetrick. Technically, the best way to spread the risk is to put everybody in the risk pool and for everybody to share in the cost equally. And this is the situation --

Dr. Burgess. As a practical matter -- forgive me for interrupting -- but as a practical matter, an 8 percent payroll tax, what does that do to you for job creation going forward? As

you look over the horizon, the job market or the economy is improving, you are going to bring people back into your business. But now whether someone wants to provide the insurance or not, there is an 8 percent payroll tax affixed to that job.

Mr. Hetrick. I am sorry, I have trouble hearing.

Dr. Burgess. The payroll tax will be the employer mandate, that everyone of course will contribute. So is this 8 percent -- I mean this is one of the largest taxes that has ever been levied upon -- one of the largest taxes that has ever been levied on small business. Is that going to have an effect on your ability to hire in the future?

Mr. Hetrick. It is still employment-based. You are still basing your system on people who work.

Dr. Burgess. But that is the language in 3200 that we have in front of us, is that it will be paid for with an employer mandate. So people who work, you are correct, will be paying the bills. The employers will be assessed a tax, whatever you want to call it, a premium of 8 percent of their payroll to cover the cost of the insurance.

Mr. Hetrick. If I am paying for a tax to get the health coverage or paying the insurance company to get health coverage, I want the best deal. To me it is like getting my son's college loans. I had a choice between a private lender and a government direct lending program. And those two went into competition with each other, and it helped drive the rates down on both sides of

the deal.

I would love to see the same thing on the health care. So the payment mechanism of it, whether I am paying for a government-funded program or paying the insurance company as I am now, I want the best deal.

Dr. Burgess. So you would -- if the best deal were to pay the 8 percent payroll tax, people would -- you would move away from a private insurance to the government insurance. That would be a business decision that you would make, would be to leave the private system and go to the government system.

Mr. Hetrick. I want to look --

Dr. Burgess. And that has been one of our concerns as well, that we will drive out the private sector. And again, as my response to Mr. Landauer, if you erode the private sector -- remember, the private sector is paying part of the freight. It is carrying part of the load for the public sector. I am not here to apologize for insurance companies. They brought a lot of the problems on themselves. Still, they fund the government-run insurance currently. We couldn't run our offices without that ability to pick up some from the private sector. I am sorry, Mr. Chairman.

Mr. Stupak. You used both rounds at once.

Dr. Burgess. I knew you missed me all day, so I wanted to take full advantage of that.

Mr. Stupak. Thank you, Mr. Burgess.

Just one or two questions to wrap this up. It is my understanding the supplemental report we wanted in earlier comes in without objection; is that right, Mr. Gingrey?

Dr. Gingrey. Mr. Chairman, on that, excuse me, Mr. Burgess, on that specific question, while we do not object to the inclusion of this staff memo, we again caution the Majority that the inclusion of specific examples in States with only a few insurance companies could make it apparent which insurance company is being discussed in each example.

I do waive my reservation, Mr. Chairman, and I yield back. I just wanted to make that point.

Mr. Stupak. Sure. And on the supplemental report here dated October 20th, if there are some redactions you want, just let us know and we will put it in there. But I don't see anything in there.

Let me ask a question along those lines. In the supplemental memo dated October 20th, we talk about group-specific factors. And Dr. Blumberg, it may be appropriate to ask you, I mean you have your baseline in health care which is based on utilization and rate-setting and that, but then you go into group factors. And for small businesses, it indicated that the group factors are health and claims experience of the group, the age of the group, the sex of the group, the size of the small business, the number of employees, the industry. And then we go to a final part of the rate creating which depends on administrative costs, profit that

the insurance carrier expects, plus the agent's commissions, plus the taxes. So the small business or anyone buying insurance is paying about nine different factors for small businesses.

Is that the same with larger businesses, or does this larger pool just sort of wipes out many of those factors?

Ms. Blumberg. Well, the vast majority of the very large businesses are self-insured today. So their costs are based on the risk of those that are in the firm. But once you get to a large size, then basically the distribution of expenses within the firm looks like the distribution of expenses in the population at large.

And so you don't have to worry about these things at a micro level. You are looking at the whole group. You are basing it on the law of large numbers. And so for those medium-sized firms who are buying commercial coverage, those are experience-rated as well, but they are at lower administrative costs than the small firms are. And sometimes they do face difficulties as a consequence of their risk. But they are less likely than a small firm to have those big risk swings from year to year because of their size.

Mr. Stupak. Okay. And Mr. Walker, Mr. Hetrick, Mr. Landauer, it seemed like your premiums went up as your employees went down. Correct?

Mr. Walker. That is correct. I am sorry, Mr. Landauer or me?

Mr. Stupak. Mr. Walker, go ahead.

Mr. Walker. No, as the economy crashed --

Mr. Stupak. Right.

Mr. Walker. -- then we were caught up in the insurance's ability to climb out of the economy. And they actually raised the rates to keep themselves employed, or so it seemed to us.

Mr. Stupak. I am from Michigan. Our small businesses are looking at 22 to 40 percent increases in just this year alone, and not necessarily because they lost employees; just the economy. And the economy is bad in Michigan, and we are just getting hit again.

Mr. Landauer, do you have anything to add to that, or Mr. Hetrick? Just what I was saying, Mr. Hetrick, the number of employees, it seemed like if you lose employees, you said you had to lay off employees, therefore your rates then went up because you had less of an area to spread a risk over.

Mr. Hetrick. How many have we cut back?

Mr. Stupak. No. Just did you realize that as you dropped employees -- you said you had to lay some off to pay for your health insurance -- then your health care costs actually went up because you have less employees to spread that risk over.

Mr. Hetrick. Since we have fewer people on, the cost went down, unfortunately.

Mr. Stupak. Oh, yours went down. Okay.

Mr. Hetrick. We also have had 2 years, 2007 and 2008, when

we had the only single-digit cost increases in our company's history. It had been double digit every other year except those two. Now it is back to 19 percent.

Mr. Stupak. Our committee now for 2 years we have been looking at the private insurance industry, and we have had our last three hearings now -- it seems like the insurance companies win; if you have no claims, they get their money. No claims, they are not paying out, they makes profits. People get sick, premiums go up, they make profit. You really get sick, they drop you or else they will purge a small business from their rolls. It seems like in every scenario, the insurance industry still wins.

Where is their risk? You are all talking about pooling and spreading the risk. Where is the risk for the insurance industry? I guess I don't see any. Mr. Walker?

Mr. Walker. I can tell you that I bet the three of us, we have never met each other, but I will bet you the three of us have lost any ability to trust an insurance company because of that situation. And that is why we are probably all three in favor of at least a public option.

Mr. Stupak. Dr. Blumberg, one more question if I may. There are a lot of us that talked about the insurance industry is not subject to antitrust laws. If they raised their rates 18 percent, 28 percent, 22 percent, really nothing you can do about it. There has been a lot of discussion about taking away the antitrust exemption. Would that create competition in the marketplace to

lower some of these rates for small or large businesses?

Ms. Blumberg. You know, the situation is very difficult because there really is very little in terms of oversight of rating by State regulators. And the States are really where the vast majority of regulation of the insurance industry is today. And the resources there are really concentrated on ensuring that insurers are solvent and they meet the minimum solvency requirements. So there is not a lot of attention paid to how much the rates are going up and in what way they are going up, for whom.

And so, you know, I am not an antitrust attorney, so I am not an expert in that area. But all I would caution is to say that I am not as concerned about the antitrust, you know, provisions as I am about greater oversight of the way that the insurers are operating.

Mr. Stupak. Thank you. Mr. Braley, a question?

Mr. Braley. Thank you, Mr. Chairman. I was a little bit surprised when Dr. Burgess went down the route of talking about this onerous 8 percent tax per employee on small businesses. Because I was attacked at one of my town hall meetings on health care reform by a small business owner who accused me of giving incentives for businesses to dump existing health care coverage they have that is more costly than that 8 percent requirement in order to save costs and improve their bottom line.

So let's talk a little bit about those numbers. And I would

be interested in all of your feedback on this. There are many small businesses in Iowa that employ people who make \$20,000 a year or less. And when you are looking at the average annual premium for a family of four for small businesses at \$13,000 a year, let's talk about that number. If you pay an 8 percent surcharge on an employee making \$20,000 and they can go into the exchange and buy their own product with some supplemental affordability credits, that is going to cost a small business owner \$1,600. That sounds considerably less than \$13,000 a year. A \$40,000 a year employee, what is that going to cost you if you decide that option? \$3,200. Somebody making \$60,000 a year working for a small business in Iowa is doing pretty well, aren't they, Mr. Landauer? \$4,800 a year. That is about a third of what it is costing right now to insure a family of four. You can make \$120,000 a year working for a small business, pay 8 percent into the exchange, and pay \$9,600, substantially less than it costs right now to insure a family of four.

So when Congresswoman Blackburn was talking about confidence in the free market-oriented health care solutions to address these problems, count me as skeptical. There has been no institutional impediment to associated health care plans addressing the needs of small business owners in all 50 States. Have they done it? No. That is the problem that we are facing with health care. And I would just invite each of you to respond to the problems that I have just identified. Mr. Landauer?

Mr. Landauer. Would you repeat the question?

Mr. Braley. I won't go through the whole thing. I mean isn't it true that as a small business owner, if you are struggling to get by and these rising health care costs are tapping every dollar you have available to return a profit, that if you have an opportunity to pay substantially less by paying 8 percent of your employees' income into a pool and letting them choose their own health care, and if they are eligible they qualify for affordability credits to get a health care product that may be better than what you are offering them now, how is that not a positive outcome?

Mr. Landauer. Correct. That is a perfect way of doing business.

Mr. Braley. Mr. Hetrick, do you have any comments about that?

Mr. Hetrick. Given the choice, I would have to look at which was the better deal if the coverage is equal. We have always erred on the side of providing quality coverage for our people.

Mr. Braley. And you made a very good point, because you are in a market where you are competing for good employees. And one of the things we know is that in a free market system, that is always going to provide incentives for employers who want to attract the best caliber of employee, to offer a better benefits package to their employees.

Mr. Hetrick. Yes.

Mr. Braley. And that is why in the exchange that we have constructed there is a basic plan, a premium plan, an enhanced plan, and a premium-plus plan, so that employers can go in, even though they are going to have some basic required elements of coverage, and decide what makes most sense for their employees.

Mr. Hetrick. Absolutely. And if you have got a cheaper way for me to pay for that same thing, I will go for the cheaper option.

Mr. Braley. Mr. Walker?

Mr. Walker. I have never been able to consider insuring a family of four. It has always been too expensive. But I think for an individual employee, we crunched these numbers last week, and it came to just below 5 percent. So at 8 percent for a family of four, that is a much better option, no doubt.

Mr. Braley. Dr. Blumberg?

Ms. Blumberg. Well, our analysis has showed that there are some advantages for many small employers to being able to use the pool and opt to pay a payroll assessment in certain circumstances as opposed to the premium. And they will obviously choose what is best for them financially.

And just in case you are interested, I was not asked directly, but I have done quite a bit of analysis of association health plans and how they differ from exchanges. And they are really very different. One is oriented towards really broad pooling of health care risk, which is what you get under the

exchanges laid out in H.R. 3200, whereas association health plans are really oriented towards further segmentation of health care risk, allowing the healthier firms to band together to avoid sharing in the costs of the higher-cost small firms.

Mr. Braley. Thank you.

Mr. Stupak. Mr. Gingrey, I think you had one more question you wanted to ask?

Dr. Gingrey. Mr. Chairman, thank you. I want to make a couple of comments as just sort of a follow-on to what my good friend from Iowa, Mr. Braley, just said.

No question about it, I think he is right, this paying the 8 percent is a lot cheaper than buying and providing health insurance from the employees. And corporate America, under the provisions of H.R. 3200, will eventually, within 5 years let's say, drop 110 million of their employees who are currently covered by corporate America, and they will let them go right into that exchange.

And if the final bill has a public option, the government -- trust me, I am from the government, I am here to help you -- Mr. Walker said the three businessmen at the table probably agree that they don't trust the insurance industry, trust the government. They will absolutely crowd out the marketplace for the private insurers, and you will simply have, Mr. Landauer, you definitely then will have Medicare for all, and you will have lack of providers, and you will have rationing of care.

And that is why those of us on this side of the aisle are so concerned with the public option. It is a Trojan horse for a single-payer system. And clearly, because of this 8 percent deal that Mr. Braley just talked about, employers across this country will drop their coverage of their employees like a hot potato. So it is not really a question, Mr. Chairman, but I appreciate you giving me the opportunity.

Mr. Hetrick, you mentioned earlier about the student loan program. And you said, hey, look, this competition between FFELP and the Direct program, this is great, let's let them compete and let's see who offers a better rate for your child so they can go to college and get a college education. Well, the government wanted to compete, but now they have crowded out the FFELP, and it is all Direct loan program as a bill that we just passed, without my vote of course, in the House of Representatives, and there will be no competition. It will be all government.

Same thing with health care. That is my concern. You can comment on that, any one of the four of you, if you would like, if I have got time remaining, Mr. Chairman.

Mr. Stupak. Dr. Blumberg?

Ms. Blumberg. We looked quite a bit at the public plan option, and do not believe that it is going to eradicate private health insurance coverage, even if implemented in the way laid out in the current proposal. And in fact, well over 90 percent of the number of Americans currently covered by private insurers we

believe would continue to be -- would be covered by private insurers under the reform.

We are talking about bringing in a lot more people into the system than are insured today. Many of them would be covered through private plans. And so because you are increasing the total number of coverage, we think roughly 92 percent as many people would be covered by private insurance, even in the presence of the public plan, perhaps higher than that depending upon the rules of getting into the exchange.

In addition, when you think about situations where there has been a public plan competing with private plans, I think one important example to remember is just how badly private insurers did want to compete with the Medicare program, and hence we developed the Medicare Advantage program. Now, those private insurers have actually been quite advantaged by rules under the Federal Government, and in fact have been doing quite well, to the point where they have been providing extra -- well over extra benefits than what the Medicare beneficiaries are entitled to, and increasing costs as a consequence.

So we do have examples where we have allowed this kind of competition between private plans and a public health plan, and the privates have sustained themselves and done quite well.

Mr. Stupak. Very good. Well, let me thank you all for coming. That concludes our questioning. I want to thank you for your testimony and your coming up here to testify in Washington to

give us some insight. As you can see, we have differences of opinion on health care, and a long way to go, but hopefully we will get something done for the American people.

Dr. Burgess. Mr. Chairman?

Mr. Stupak. Mr. Burgess? That is it, you are cut off, there is the bell. Go ahead.

Dr. Burgess. I have some additional questions I would like to submit in writing.

Mr. Stupak. Yes. I was just going to get to that part. The committee rules, as you know, provide that members have 10 days to submit additional questions for the record. And that will be part of -- this tradition will be kept. You have 10 days to do so, if you would like to submit additional questions for the record.

Therefore, I ask unanimous consent that the contents of our document binder be entered into the record, provided that the committee staff may redact any information that is business proprietary, relates to privacy concerns, or is law enforcement sensitive. Without objection, documents will be entered in the record.

[The information follows:]

***** COMMITTEE INSERT *****

Mr. Stupak. That concludes our hearing. This meeting the of the subcommittee is adjourned.

[Whereupon, at 3:42 p.m., the subcommittee was adjourned.]