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Opening Statement of Rep. Henry A. Waxman Chairman, Committee on Energy and Commerce

“The High Cost of Small Business Health Insurance: Limited Options, Limited Coverage”

Subcommittee on Oversight and Investigations

October 20, 2009

Today, we will 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 company 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 #1.”

Many small business owners, like the ones we will hear from today, want to provide health coverage for their employees. It’s not only the right thing to do, 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% 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 a small business that

employs 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 premiums 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% on small business customers. Two insurers have imposed rate hikes of greater than 200% in a single year.

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

This 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 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 the 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's 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 simply isn't there when it's needed most.

It's time to fix this broken system and ensure that everyone has access to affordable, reliable insurance. In the near future, the House of Representatives will vote on comprehensive health reform legislation. This legislation will create a marketplace for small employers in

which they can buy the coverage their employees need without medical underwriting, discriminatory rates, or abusive rate increases designed to force them to drop coverage. I look forward to working with my colleagues to seize this historic opportunity and finally pass meaningful health insurance reform.

I want to thank our witnesses for appearing at our hearing today, especially the small business owners who will tell their stories about the challenges they face in the small business health insurance market. Thank you for your testimony and for helping this Committee continue to put a human face on the health care debate.