

**Statement of Rick Poore, owner of DesignWear, Inc, dba Shirts101.com in
Lincoln, Nebraska and member of the Nebraska Main Street Alliance**

To: Health Subcommittee of the House Energy & Commerce Committee

Hearing on: "True Cost of PPACA: Effects on the Budget and Jobs"

March 30, 2011

Introduction

Chairman Pitts, Ranking Member Pallone, and members of the Health Subcommittee,

Thank you for the invitation to testify today on behalf of my business and small businesses in Nebraska and across the country in the Main Street Alliance network. I appreciate the opportunity to share my business's story with health care issues and discuss what the health law means for small business job creation.

My name is Rick Poore, and I'm the owner of DesignWear, Inc (doing business as Shirts101.com) in Lincoln, Nebraska. I'm also an active member of the Main Street Alliance small business network. I've been a small business owner for 17 years. I started my business, a custom screen printing business, in Lincoln in 1994. We started with three employees, and over the years we've grown to employ 29 people.

I've been offering a group health plan to my employees and paying a large portion of the costs since 2000 or so. It felt like the right thing to do, offering health coverage. It also made good sense from the perspective of employee morale and retention. But it hasn't been easy to sustain. Since we started offering coverage, our rates have gone up every single year – several times in excess of 30 percent – forcing me to cut back on benefits to keep the premiums within reach.

Two years ago, under the pressure of ever-mounting costs, I switched to a new insurer, Coventry, that specializes in small business coverage. They do their rating differently, spreading risk and costs more evenly across younger and older enrollees. It means the premiums for my youngest workers are a little higher, but for everyone who's older, they're a lot lower. I can subsidize some additional cost of the insurance, making it more affordable for my younger employees, and it's still markedly cheaper overall for me.

In fact, if I'd kept the same benefit levels when we switched insurers two years ago, we'd be paying about the same amount now as we were paying then – I would have experienced virtually no increase in

premiums over the last two years. That's pretty unheard of. (Instead, we took the opportunity to improve our benefits significantly – so we're paying more, but it's for greater value.)

I am lucky to have finally found this option, but still there are no guarantees. For years I was at the mercy of an insurance company's whim because I only had the leverage of ten or twenty employees. This principle of pooling risk across the younger and older and healthier and sicker, this is exactly what the new health insurance exchanges, which I'll discuss more later, are designed to do.

The Impact of Runaway Health Insurance Costs Without Health Reform

The country is counting on small businesses to create the jobs that will put people back to work and jumpstart the economy. But the situation we've put small businesses in with health insurance costs over the last 20 years is seriously impeding our ability to do that.

If you want to talk about a job-killer, you don't need to look any further than runaway health insurance costs. I've seen insurance costs consume an ever increasing share of my business income – as I said, my rates went up every single year until I switched to my current insurer, and the increases have far outstripped inflation or my other labor costs. Small businesses across the country have found their ability to create new jobs seriously undermined by health insurance costs that have more than doubled in the last 10 years.

Before the passage of health reform, for all those years of steep premium hikes, we had no tools to control off-the-charts rate increases or ensure that small businesses were getting value for our premium dollars. Without any bargaining power, small businesses like mine were left at the losing end of a "my way or the highway" negotiation.

As a result, more and more small businesses were priced out of the market. By 2009, only 30 percent of businesses with less than 50 employees in Nebraska offered health insurance, compared to 96 percent

of businesses with 50 or more workers. Nationally, it was 41 percent compared to 96 percent.¹ Facing unsustainable rate increases, small businesses have been forced to either drop coverage, cut benefits and end up with a watered down plan that isn't worth much, or pay a king's ransom (taking money away from other productive uses) for a plan that actually provides some security.

The Patient Protection and Affordable Care Act is finally changing the game on health care and giving small businesses tools and opportunities to control costs and increase value. From the small business tax credits to stronger rate review and the value for premiums requirement, the health law is already throwing a lifeline to small businesses, creating opportunities for businesses to offer health coverage, save money on premiums, and plow those savings back into business investment and job creation. We'll get even more help in 2014 when the new competitive marketplaces for health insurance (the state health insurance exchanges) open for business, giving small businesses greater transparency, better choices, broader risk pooling, and more bargaining power.

The argument that the Affordable Care Act will cost our economy jobs ignores reality. It ignores our experience of the last 10 years, where the lack of any concerted response to skyrocketing insurance costs left small businesses in the lurch and undermined our ability to create jobs. The unlevel playing field for small businesses and the near impossibility of getting good, affordable coverage in a small business locked people into jobs with large employers that offered health security for themselves and their families, stifling the American spirit that drives innovation.

The real threat to job creation going forward would be to repeal or undermine the health care law, to return to a system that stacks the deck against small businesses, a system where insurance premium hikes knock the wind out of us every year in the absence of effective measures to level the playing field.

¹ Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, Medical Expenditure Panel Survey – Insurance Component, Table II.A.2(2009) Percent of private-sector establishments that offer health insurance by firm size and State: U.S., 2009, http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2009/tia2.htm

Preventing Cost-Shifting and Protecting Jobs by Ensuring Everyone Contributes

While some may raise concerns about the health law's employer responsibility requirement for businesses with more than 50 workers, we have to remember two important facts. First, over 95 percent of our nation's businesses have less than 50 workers, and so will not be touched by this requirement. Second, 96 percent of businesses with more than 50 workers already offer health coverage.²

As a small business owner who offers good health coverage and pays a large share of the cost, I find it difficult to sympathize with the complaints of larger companies that choose not to offer decent health coverage to their employees and pay a fair share. Through that choice, they're shifting the cost of health care for their workforce onto others – specifically, onto me and every other business owner who is paying for health coverage.

If some businesses over the 50 employee threshold complain that paying their fair share toward health care will harm their ability to create jobs, we've got to remember that when they don't pay, the rest of us are paying their way for them, and that hurts *our* ability to create jobs. This is anti-competitive. Imagine if a larger screen printer in Lincoln, my direct competition, decided to stop paying wages and I was held responsible for making his payroll. It may sound crazy, but that's effectively what we're doing with health care when larger businesses choose not to offer it and pass the costs along to the rest of us.

Not only is this anti-competitive, it's also inefficient (since more workers left without insurance leads to less preventive care and more costly ER visits), driving up costs in the system overall. And that means a negative net impact on our ability to create jobs.

The employer responsibility provision reinforces what the vast majority of larger employers already do, and ensures that responsible employers – both large and small – who offer health benefits aren't

² Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, Medical Expenditure Panel Survey – Insurance Component, Table II.A.2(2009) Percent of private-sector establishments that offer health insurance by firm size and State: U.S., 2009, http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2009/tia2.htm

undercut by competitors who shun this responsibility. In this way, ensuring that larger employers pay their fair share will help protect and create jobs for our economy.

Small Businesses Moving Forward on Health Care

Small businesses are eager to put the health care nightmares of the past behind us and move forward. Already, news reports are suggesting that more small businesses are signing up for health coverage since the passage of the new law – both in Nebraska and across the country:

- A February 1 article in the *Lincoln Journal Star* reported that Blue Cross and Blue Shield of Nebraska saw a 34 percent increase in health insurance sales to small businesses for 2011.³
- In the six months after the Affordable Care Act was signed into law, UnitedHealth Group added 75,000 enrollees in small businesses with less than 50 workers, according to the *Los Angeles Times*.⁴
- Blue Cross Blue Shield of Kansas City recently reported a 58 percent increase in small businesses purchasing insurance since April 2010, the first month after the passage of the ACA.⁵
- And my insurer, Coventry, a national company that focuses on small businesses, added new business to cover 115,000 more workers in the first nine months of 2010.⁶

Some of these encouraging numbers are likely thanks to the small business tax credits in the Affordable Care Act, which are effective for tax year 2010 and offer thousands of qualifying Nebraska small businesses a credit of as much as 35 percent on their health premium costs if they offer coverage and pay at least 50 percent of the premiums. Thanks to the tax credit, smaller businesses that have endured year after year of punishing rate increases are finally seeing their after-tax health insurance costs go down for the first time in memory.

3 Mark Andersen, "Blue Cross sees big jump in small-business policies," *Lincoln Journal Star*, February 1, 2011, http://journalstar.com/business/local/article_df475fde-14b1-588a-92ba-d3fa7e9a3e84.html.

4 Noam N. Levey, "More small businesses are offering health benefits to workers," *Los Angeles Times*, December 27, 2010, <http://www.latimes.com/health/healthcare/la-fi-health-coverage-20101227,0,5024491.story> [Hereinafter Levey].

5 Levey.

6 Levey.

But a business doesn't have to qualify for the new tax credit to benefit from the health care law and get into a better position to create jobs. For small businesses across the country, whether you get the credit or not, there's a lot to look forward to as more provisions of the law take effect this year and going forward.

Small Business Benefits of the Affordable Care Act and Implications for Job Creation

The Affordable Care Act includes a number of provisions that will give states and small businesses new tools to get a handle on health insurance costs and allow us to invest in job creation. These measures include:

- **Stronger rate review:** The law gives states new tools and resources to strengthen review of insurance rate increases and protect small businesses from the unreasonable rate hikes we've endured for so many years. This is one of the most direct ways to protect small businesses and help us do our part to create jobs and grow the economy. Given the high level of market concentration in the health insurance industry and its negative effects on competition, we need this stronger rate review to protect us from unreasonable and unjustifiable rate increases.
- **A value for premiums requirement:** The new minimum medical loss ratio (MLR) requirement will ensure that small businesses are getting good value for our premium dollars. By requiring insurance companies to spend at least 80 percent of premiums collected from small group and individual customers on health costs (as opposed to administrative costs, advertising, lobbying, executive compensation, and profits) or pay a rebate if they fail to meet the requirement, we will increase the value of insurance or decrease its cost – or both.
- **New competitive marketplaces for health insurance:** In 2014, the state health insurance exchanges will give small businesses more transparency, better choices, broader risk pooling and more bargaining power by allowing us to band together to shop for coverage.
- **Reduced cost-shifting:** As the provisions above help more small businesses (and others) gain health coverage and start paying into the system, those of us who already provide coverage will see the "hidden tax" we pay now to cover cost-shifting from uncompensated care decrease, lowering our costs overall.

Health Insurance Exchanges in Microcosm

For my business, I'm especially looking forward to the new health insurance exchange and the big increase in risk pooling and bargaining power it will mean for my business to be able to band together with other businesses across Nebraska. The way I see it, my experience with my current insurer – specifically, the way they spread risk more evenly across our group and how that's helped us control costs – is a microcosm of how things should work with the new insurance exchange.

I can't wait to join a Nebraska health insurance exchange that gives me access to a combined risk pool and a joint purchasing bloc with thousands of other small businesses. If we create an active purchaser exchange that negotiates better deals on our behalf, then we'll have both economies of scale and some serious muscle at the bargaining table. There are more than 40,000 private sector firms in Nebraska with less than 50 employees that could be eligible to join the exchange, and these firms employ about 230,000 people.⁷ Talk about increasing my bargaining power.

Recent Trends in Insurance Rates

I want to make one point about continuing rate increases by health insurers. I know many insurers are pursuing steep rate increases again this year, and I know insurance lobbyists are trying to blame these increases on the new law. That claim is not based in reality – it doesn't hold up.

Insurers have found an excuse to raise their rates every year, as my experience of non-stop increases for more than a decade indicates. If they're raising rates again this year, it's *in spite of* the health care law, not *because of* it. If anything, they're taking the opportunity to push through one more steep increase before measures in the law that will help rein in these increases take effect.

7 Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2009 Medical Expenditure Panel Survey – Insurance Component, Table II.A.1(2009) Number of private-sector establishments by firm size and State: United States, 2009, http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2009/tia1.htm; Table II.B.1(2009) Number of private-sector employees by firm size and State: United States, 2009, http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2009/tiib1.htm

Even executives from the insurance industry have admitted the new law is not to blame for their rate increases. A senior vice president at Harvard Pilgrim in Massachusetts told *The New York Times* recently that only one percentage point of this year's increases was due to the new law.⁸ In return for this single point increase, we'll have access to free preventive services that will help reduce long-term costs, people will no longer face annual or lifetime limits, and families can keep young adult children on their policy up to age 26, among other things. That sounds like good value and a smart investment for a single point increase.

As for medical inflation – the rising costs of care itself – we have to remember it's taken us decades to dig ourselves into the hole we're in. It's going to take more than one year to dig ourselves out.

Conclusion

Small businesses are benefiting already from the new law and looking forward to more improvements around the corner. Our country and our economy can't afford to send us back to a health system that stacks the deck against us. We've got to keep moving forward.

With proper implementation of the health law, we can level the playing field for small businesses and begin to get control of insurance costs. That will allow small businesses to focus on what we do best: creating jobs, serving our communities, and building local economies across Nebraska and across the country.

Thank you.

⁸ Robert Pear, "As Health Costs Soar, G.O.P. and Insurers Differ on Cause," *The New York Times*, March 4, 2011, http://www.nytimes.com/2011/03/05/health/policy/05cost.html?_r=1&emc=tnt&tntemail1=y

Statement of Rick Poore: One-Page Summary

Introduction

I've been a small business owner for 17 years, and now employ 29 people. I've been offering a group health plan since 2000 or so. Since we started offering coverage, our rates have gone up every year. Two years ago, I switched to a new insurer that does rating differently, spreading risk and costs more evenly. This is saving me money. I see it as a preview of the new health insurance exchanges coming in 2014.

The Impact of Runaway Health Insurance Costs Without Health Reform

Small businesses have found their ability to create new jobs undermined by health insurance costs that have more than doubled in the last 10 years. The argument that the ACA will cost our economy jobs ignores our experience of the last 10 years, where skyrocketing insurance costs and the lack of any concerted response undermined our ability to create jobs. The real threat to job creation would be to repeal the health care law and return to a system that stacks the deck against small businesses.

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