



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

Testimony

Before the

**Committee on Small Business
U.S. House of Representatives**

on

Health Care Challenges for Small Business

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Introduction

Madame Chairwoman and other distinguished members of the Committee, my name is Alissa Fox and I am Senior Vice President of the Office of Policy and Representation of the Blue Cross Blue Shield Association (BCBSA). I would like to thank you for the opportunity to testify before you today on the challenges small businesses face in providing health coverage for their employees.

BCBSA is a national federation of 39 independent, community-based Blue Cross and Blue Shield companies that collectively provide health care coverage for more than 102 million individuals – one in three Americans. Blue Cross and Blue Shield Plans are the only health plans that provide coverage across every zip code in the United States. All Blue Cross and Blue Shield Plans offer coverage to small employers – a sign of our strong historical commitment to the small employer market.

BCBSA strongly believes that all Americans should have health care coverage. BCBSA has put forth a comprehensive, five-part proposal – *The Pathway to Covering America* – designed to build on today's employer-based system to improve the quality and value of our health care system while simultaneously extending coverage to all. We believe that finding effective solutions that expand coverage and improve affordability for small employers must be a centerpiece of our nation's efforts to reform the health care system – a need only made more urgent by recent economic turmoil. We are pleased to be with you today to share our recommendations on how to achieve these goals.

Today, I would like to focus on several key areas:

1. Review challenges facing the small employer health insurance market;
2. Discuss what Blue Cross and Blue Shield Plans are doing to address these challenges; and
3. Provide BCBSA's recommendations on federal efforts to improve coverage for small employers.

Challenges Facing the Small Employer Health Insurance Market

As our nation works to extend coverage to all Americans, we must pay particular attention to the challenges small employers face in offering health insurance coverage to their workers. According to a recent analysis by the Employee Benefit Research Institute (EBRI), nearly 63% of all uninsured workers are either self-employed or working for private-sector firms with fewer than 100 employees (EBRI, 2008).

Ninety-nine percent of large employers (with 200 or more employees) offer health insurance coverage to their employees (Kaiser/HRET, 2007). Among firms with 50 or fewer workers, offer rates are relatively high for larger small firms – 83% of firms with 25-49 employees and 76% of firms with 10-24 workers offered coverage in 2007.

However, offer rates decline significantly among the smallest firms. Only 45% of small

employers with 3-9 workers offer coverage. More than 34 percent of workers in private-sector firms with fewer than 10 employees were uninsured (EBRI, 2008).

The reasons for these low offer rates and high uninsured rates among very small employers are complex. They include the ability of firms to afford to offer coverage as well as the ability of workers to afford their share of the premium when coverage is offered. This situation is compounded by certain characteristics among small employers, who may be less established, have less certain cash flow, and employ more low-wage workers than larger employers. The affordability challenges faced by small employers will only be exacerbated by the current economic downturn.

To understand the challenges that small employers face when purchasing health insurance, it is important to understand how this market functions and how it is regulated. Traditionally, small employers faced two major challenges in purchasing health insurance: access and affordability. The issue of access has largely been addressed as a result of the enactment of state small employer health insurance reform laws in the 1990s. However, the challenge of affordability remains, as I will discuss in detail later in my testimony.

In the 1980s, states were faced with a small employer health insurance market that was in crisis. Small employers in many states were having difficulty purchasing insurance at any price if they had sick workers. In response, states enacted reforms to assure that small firms with sicker workers could obtain coverage at reasonable premiums.

Today, state and federal law requires insurers to offer coverage to all small businesses (2-50 workers) regardless of their employees' health status. In all 50 states, small businesses cannot have their coverage turned down or cancelled if their employees become sick. Thus, small employers that can afford coverage are guaranteed access to coverage today.

The premiums that insurers charge small employers are now highly regulated. State law requires health plans to pool all of their small employers together when establishing premiums. State laws also limit the extent to which premiums can vary for individual small employers based on a variety of factors, including health status or claims experience. These reforms spread the medical costs of all small employers more evenly to generate more affordable premiums for employers with less-healthy members. However, this results in higher premiums for the healthiest employers.

Affordability is the central remaining challenge in the small employer market today. Since 1999, average health insurance premiums for family coverage for small employers have more than doubled from \$5,683 to \$12,091 in 2008, according to the 2008 Kaiser Family Foundation/HRET employer health benefits survey. As health care cost increases continue to outpace inflation, small firms have found it more and more difficult to provide or maintain coverage.

A survey of small employers BCBSA sponsored with the Employee Benefit Research Institute indicated that being able to afford health insurance was the top challenge facing small businesses that offer health coverage (EBRI, 2002). For many small employers, however, offering coverage is not a financially viable proposition, especially when they have large numbers of low-wage workers. In this same EBRI survey, 61% of uninsured small employers reported that they did not offer benefits because they did not think that their employees could afford it.

It is important to note that escalating premiums are not limited to small employers. In fact, average family premiums for covered workers in small and large firms have grown at similar rates since 2004 (24% in small firms vs. 29% in large firms) and since 1999 (113% in small firms vs. 122% in large firms), according to the Kaiser Family Foundation/HRET survey. These premium increases are due to substantial growth in the underlying cost of medical care that impact premiums for all employers – large and small.

The causes for premium increases are due to many factors. According to the Congressional Budget Office (CBO), the bulk of rising health care costs over the past four decades can be attributed to our nation's use of medical services made possible by technological advances (CBO, 2008). In fact, CBO found that approximately half of all growth in health care spending during this time is associated with the emergence of new medical technologies and services and their adoption and widespread diffusion by the U.S. healthcare system. Additional factors contributing to rising healthcare costs

include the aging of the population, increased utilization due to the greater prevalence of chronic disease, and cost-shifting resulting from underpayments in government programs. According to a recent report by Millman, Inc., and co-sponsored by BCBSA, annual health care spending for an average family of four is nearly \$1,800 higher than it would be if Medicare and Medicaid paid hospitals and physicians rates that were comparable to those paid by private plans.

The significant premium increases over the past decade point to an urgent need for the private sector and government to work together to help make coverage more affordable for small business and address the underlying cost-drivers in the health care system.

What the Blues are Doing to Address These Problems

The Blues have been working aggressively to improve quality and control costs – while meeting consumer demands for choice in plan and benefit design – through a variety of innovative strategies and initiatives. Our 39 Blue Cross and Blue Shield Plans across the United States are taking action to improve the healthcare systems in their states and expand access to coverage. Profiles of the many programs underway within the Blue Cross and Blue Shield system can be found at: <http://www.blueadvocacy.org/plans>.

Working to ensure products meet the needs of small employers is a major priority for the Blues. Throughout our history, Blue Cross and Blue Shield Plans have had a strong commitment to our small employer customers. We are pleased that Blue Cross and

Blue Shield Plans are the number one choice of small employers in most states in the U.S., despite strong competition in this marketplace.

I would like to highlight a few of the initiatives where Blue Cross and Blue Shield Plans are taking action to help small businesses by offering innovative and affordable products and programs to small businesses and their employees.

- **Blue Cross and Blue Shield of Oklahoma** (BCBSOK) worked closely with the state legislature to develop *Insure Oklahoma*, a premium assistance program funded by tobacco taxes that provides financial aid to low-income, uninsured workers in eligible small businesses to help cover the cost of health insurance. Through *Insure Oklahoma*, employers contribute 25 percent of the monthly premium and employees are responsible for paying only up to 15 percent of the total monthly balance. BCBSOK supports the program with plan offerings that provide comprehensive, low-cost coverage to ensure uninsured residents have access to affordable health insurance. To date, *Insure Oklahoma* has enrolled 3,777 small employers and provides subsidized coverage to 11,078 employees and their dependents. According to a recent survey of 400 employers in *Insure Oklahoma*, 56% of enrollees were previously uninsured and 37% of participating employers offered coverage for first time. Oklahoma recently received a waiver from CMS to expand this program to larger employers and college students.

- **Blue Cross and Blue Shield of Arizona's *BlueSolutions*** plan enables small businesses with fewer than 50 employees to offer low-premium, high-deductible health coverage to their workers. The plan covers a broad range of healthcare services such as urgent and maternity care, with affordable co-pays for in-network physician visits and generic prescriptions. *BlueSolutions* provides an affordable coverage solution to small businesses that were previously unable to offer health insurance to their employees.
- **Anthem Blue Cross and Blue Shield** has developed a portfolio of affordable small group products aimed at decreasing the number of uninsured in Colorado. *BeneFits* provide health coverage for small businesses with fewer than 50 employees that do not currently offer health insurance. The six *BeneFits* plan options feature low employer contribution and employee participation rating requirements, making them more affordable for small businesses and offering flexibility in choosing coverage.
- **Blue Cross and Blue Shield of Montana** is the insurance carrier for *Insure Montana*, a state-sponsored program that uses tobacco taxes to provide tax credits and premium subsidies to small businesses that were previously unable to afford health coverage for their workers. The *Insure Montana* pool, available to companies with 2-9 employees, provides health insurance to 731 businesses covering 2,000 employees and an additional 1,902 family members.

While these initiatives highlight some of the ways that Blue Cross and Blue Shield Plans are working to assure affordability for small employers, there are limitations to what the private sector and states can do without additional federal support. That is why it is essential for Congress to take action to address the problems facing the small employer health insurance market as part of comprehensive health insurance reform.

Recommendations for Federal Efforts to Improve Coverage for Small Employers

BCBSA strongly believes reform is needed to address the challenges individuals and small businesses face when purchasing health coverage. To this end, BCBSA supports federal action to make it easier for small employers to shop for coverage in a manner that will enhance competition, provide targeted subsidies for small employers and individuals, and change incentives to attack costs and improve the quality of healthcare.

Making it Easier to Shop for Coverage: The State Health Insurance Mart (SIM)

Model

In today's health insurance market, small employers and individuals often face challenges in shopping for health insurance and comparing choices based on important criteria such as cost and quality. As part of a comprehensive health reform plan, BCBSA urges Congress to enact legislation to encourage states to establish "State Insurance Marts" (SIMs) to simplify shopping, increase competition among insurers and help educate purchasers on subsidy options. SIMs would make it easier to shop for

coverage by creating a central point in each state where individuals and small businesses could easily compare coverage options and apply for both coverage and subsidies.

Under the SIM model, each state – building on their expertise as the regulators of the health insurance market today – would develop a central internet portal listing for all products for sale to individuals and small groups. These sites could be linked via a national framework and would enable:

- **Comparison of all insurance options** in a respective state based on key factors, including benefits, price, quality metrics, and provider networks. Each state would develop easy-to-understand comparison templates to promote transparency and informed decision-making.
- **Real-time price quotes** from multiple insurers. Each state would develop standard applications that individuals and small businesses could use to apply to several insurers simultaneously and to obtain estimated premium quotes instead of completing multiple applications and waiting for each insurer to follow-up.
- **Calculation of any tax benefits and subsidies** available or determination of eligibility for public programs. Enrollees could enter basic financial information, learn about the estimated final cost of coverage (considering any applicable subsidies), and learn if they are eligible for public programs such as Medicaid.

- **Simplified enrollment** in the plan of choice. Individuals and small businesses could easily enroll in coverage online or apply for subsidies directly through interface with the agency verifying eligibility.

BCBSA's SIM proposal would increase competition in the small employer and individual health insurance markets. SIMs would list all products for sale to individuals and small groups by all insurers in the state and for the first time allow consumers and small businesses to compare all plans in a state on price and other important factors. This will increase competition and place downward price pressure on premiums.

A number of federal health care reform proposals would create a new federal agency called a "connector" or an "exchange," intended to make it easier for individuals and small businesses to purchase health insurance. However, creating a federal "connector" would be complex, costly and time-consuming. Creation of a federal connector could also undermine state regulation and authority, creating conflicting federal-state rules that would result in regulatory confusion and adverse selection.

A state-based approach would accomplish the goals of a federal connector while ensuring current consumer protections afforded by state oversight and assuring faster implementation at lower costs by avoiding the creation of a new federal bureaucracy. To encourage states to establish State Insurance Markets, federal funding should be provided to offset the cost of development.

In addition, many purchasers today are unaware of the tax advantages for purchasing health insurance, the availability of public programs, and other options for obtaining coverage. State Insurance Marts would address this need by providing a central online site in each state (with a national landing pad for nationwide outreach) where consumers and small employers could learn about coverage and subsidies, and obtain information on public programs, including Medicaid and SCHIP.

Provide Targeted Subsidies for Small Employers and Individuals

To assure health care coverage is affordable, BCBSA also urges Congress to provide targeted subsidies to help those likely to have difficulty affording insurance. These include:

- 1. Tax credits for low-wage workers in small businesses.** Low-wage workers in small firms are less likely than those in large firms to have employer-sponsored coverage. According to research conducted by the Employee Benefits Research Institute, many small firms cite that they do not offer coverage because their workers could not afford. This tax credit is likely to encourage small businesses to offer health coverage. EBRI reports that among small employers who do not offer coverage, 71 percent would be more likely to seriously consider offering health benefits if the government provided assistance with premiums.
- 2. Tax-deductible insurance premiums for those without access to employer-sponsored coverage.** Today, the vast majority of individuals without access to

employer-sponsored coverage must pay for coverage without an income tax advantage or deduction, unlike those receiving coverage through an employer, who do not pay taxes on the value of their employer-sponsored plan. Adopting this proposal would address this fundamental inequity and improve affordability for individuals without employer coverage.

3. A refundable, advanceable tax credit for those whose premiums represent a disproportionate share (e.g., six percent) of their income. This tax credit would help millions of people who would otherwise have difficulty affording coverage while targeting resources to those who are most in need of assistance.

4. A refundable tax credit to help those between jobs. People who are unemployed often have difficulty affording coverage, and this tax credit would provide stop-gap assistance, helping to ensure there is no lapse in health care coverage.

Change Incentives to Attack Costs and Improve Quality

To assure affordable, high-quality coverage for all Americans, the underlying cost-drivers in our current health care delivery system must be addressed. We can get to tomorrow's coverage – but we must change incentives in today's system to improve quality and attack rising costs.

Misaligned incentives are drivers of health care costs. Today, providers are generally paid based on the number of services they provide regardless of the quality of outcomes. In fact, approximately 30 percent of all health care spending goes toward ineffective, redundant, or inappropriate health care.

BCBSA believes we must change incentives in our current health care system to advance the best care possible, not just to increase services. Despite the ongoing efforts by many private payers and public programs, our delivery system too often rewards care that is fragmented, duplicative, and wasteful.

Our proposal, The Pathway to Covering America, seeks to expand coverage, rein in costs and improve quality through:

- Encouraging research on what works by establishing a comparative effectiveness research institute;
- Changing incentives to promote better care instead of more services;
- Empowering consumers and providers with information and tools to make more informed decisions; and
- Promoting health and wellness by encouraging healthy lifestyles to prevent disease and managing and coordinating the care of those with chronic illnesses

Providers should be rewarded for delivering high quality health care with incentives to coordinate care, especially for the increasing number of individuals with chronic

conditions. Properly aligned incentives can reinforce the adoption of evidence-based practice standards and transparency in outcomes and quality information. Raising the bar on quality – while working to eliminate wasteful spending – will result in better outcomes and more prudent use of valuable resources.

Reforming how we pay for and deliver care will not be easy, but it is the only way that the affordability problems facing small employers can be solved over the long-term.

Conclusion

We all know there is no simple solution to the nation's health care crisis – to improving the quality of care, reining-in rapidly rising costs to keep health care affordable and extending coverage to all. However, improving health insurance coverage for small businesses is a critical step toward expanding coverage to all Americans. The recommendations I outlined today build on BCBSA's *Pathway to Covering America* proposal to help achieve this important goal.

As leaders in the health care community for over 80 years, BCBSA looks forward to working with Congress, the new Administration and other stakeholders to make quality health care affordable and accessible for all Americans this year. Thank you for the opportunity to present our views on this important subject.

