

**Testimony
of
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Crist Instrument Co., Inc.
on behalf of the
U.S. Women's Chamber of Commerce**

Before the House Small Business Committee

**“Common Ground: Finding Consensus on Health Reform,
the Small Business Perspective”
June 3, 2009, 1:00 PM**

Chairwoman Velázquez, Ranking Member Graves, Members of the Committee. I am here today as a member of the U.S. Women's Chamber of Commerce representing our 500,000 members and the millions of American small businesses who are struggling to provide health insurance for themselves, their families and their employees.

The employer-based health care system in this country has become a travesty. This unique system began as a response to wage controls and a tight labor market in World War II, when employers sought to lure workers with tax-free fringe benefits that were exempt from government-imposed wage controls thought to aid in the war effort. Subsequent tax legislation strengthened the system over the years, allowing businesses to deduct employee health insurance premiums as a business expense, for example.

While these business incentives did succeed in increasing the number of Americans with health care coverage, this strategy was ill-conceived on a number of levels:

- It particularly disfavors small and medium-sized businesses that do not represent a large risk pool of insured employees.
- It leaves out self employed or unemployed individuals, who either go without coverage or are left to seek individual policies where risk is essentially not pooled at all.
- It contributes to inflexibility in the U.S. workforce because coverage among and between companies varies greatly, and employees with coverage are apprehensive about job change for fear of losing coverage or ending up with inadequate coverage at a new, potentially better job.

- It distorts the health care market because employees tend to see coverage as a “gift” from the employer, and so do not have a shared sense of responsibility in their health care choices. Those employees fail to realize that those health insurance premiums being paid by their employer are actually holding down their wages, because employers rightly see health coverage as part of a total compensation package.

The primary responsibility of any business is to their shareholders and the bottom line. As we consider sweeping reforms to our approach to health care in America, we ought to ask, “Why should an employer, who cannot and should not have the interests of patients, or doctors, or hospitals in mind, make health care and health coverage decisions that affect people and entities that are beyond their sphere of interest?” And further, if we continue with the existing model, logistically, how can health coverage become truly portable as employees move from job to job?

The problems I see as a small business owner are as follows:

COSTS: Costs have been spiraling for small businesses for a number of reasons.

Small Businesses premium costs are based upon the average age of the employee group, the size of that group, and the historical health care costs of that group. As the employees age (which is inevitable, particularly given the U.S. demographic profile), older employees often develop chronic health problems, and as overall health care costs increase, small businesses bear an increasingly heavy burden.

The affect on small businesses and their employees as a result of spiraling health coverage costs is multi-faceted. Many firms simply drop out, no longer able to provide employee health insurance due to cost. This leads to an exodus of good employees seeking employment where health insurance is offered.

In the case of my company, we continue to provide coverage, but have asked employees to pick up more of the cost. We are not alone in this practice. As the employee share of premiums has increased, more employees are opting out of coverage. Today, only 73 % of our employees are covered under our company policy. This year, we’ve asked employees to pay 60% of the premium payment, thus decreasing their real income. If we have to ask them to cover even more next year, fewer will remain covered, shrinking the size of our group and thus driving costs up even more, as only those with chronic conditions will opt to continue coverage.

Last year the total cost for coverage of only 11 employees was a whopping 10% of our Gross Revenues. It ate up every bit of the profit we should have made and then some. Last year the increase in health insurance rates was 22 %. Even worse, we’ve been informed that the rates are set to increase by another 10% in August of this year. How can Health Insurance be affordable when an employee earning \$300.00 to \$500.00 per week pay for premium coverage for their family when that cost is \$854.00 per month? How can a Small Business owner afford \$854.00 each per month for all of their

employees and still stay in business? Frankly, short of any catastrophic health issue our firm could pay for normal health maintenance for all of our employees for less than we are paying for 73% of our staff now.

AGE AND SIZE DISCRIMINATION: Small businesses are being forced to discriminate in their hiring practices to continue health insurance coverage for employees.

America's work force is aging, and some of the most experienced, best workers are over 40. Insurance rates begin to increase dramatically for persons over 40. Yet the imperative is to hire the younger, less experienced, less productive worker, because his or her insurance costs will be much lower. This is unfair to older workers and costly in terms of productivity for the firm. It is discrimination. Perhaps difficult to prove, but I can assure you based on conversations with other small and medium-sized business owners that age is influencing employment decision making. Health coverage is to blame.

And let's be clear, small and medium-sized businesses are bearing the brunt of substantially higher premiums, because they are made up of smaller groups where risk is not adequately spread. This is discriminatory to this class of business.

DELAYED AND CANCELLED HIRING: Substantial, increasing and unpredictable health care costs force small businesses to delay or cancel new hires.

At a national level, this substantially reinforces the continuation of the current recession. It reduces possible re-employment of laid off workers. It diminishes our ability to increase sales. It weakens customer service. The ultimate result is forestalled growth of our business and our economy. New product development and innovation is curtailed, leading to a loss of competitiveness.

LACK OF COVERAGE:

Layoffs, high premium costs, lack of an employer-sponsored health insurance plan, lack of family coverage where employer-sponsored plans are available all result in lack of coverage for millions of Americans. Those without coverage either must pay out-of-pocket for health care, or all too often, face unmanageable expenses that lead to bankruptcies and cost shifting in the system.

MEDICARE BENEFICIARIES PAYING AN INCREASING SHARE OUT-OF-POCKET:

Medicare does not cover all of their expenses for beneficiaries. And while overall per-patient Medicare spending has increased, the percentage of total costs covered by

Medicare is decreasing; leaving beneficiaries to pay increasingly out of pocket or relying on Medicare Supplemental policies to make up the difference. Beneficiaries end up spending down resources until they qualify for Medicaid, in cases where they require long-term nursing care.

My husband and I took care of his mother in her later years and then my mother. They had Medicare; but it covered only 44.8% of their health care expenses. Today, Medicare covers only 41.1%. We paid the rest out-of-pocket with after tax dollars. Further, as they aged, the care provided tended to poorer than that provided to younger persons with the same health issues. When asked, the response is often, "Oh it's just old age." The cost of additional insurance for these people is often not available due to pre-existing health issues or only available at astronomic prices.

HEALTH PROVIDER ISSUES:

A hodgepodge of differing requirements among the myriad insurance companies that a provider must accept in order to attract an adequate patient base is costing our health system large amounts in duplicative, confusing, and wasteful administrative costs. Providers face increased administrative staffing, to prepare reports and bill the insurance companies, while Medicare and private insurers squeeze provider reimbursements. This dynamic is making it increasingly difficult for providers to remain in business. It has pushed physicians into higher-paid specializations, leaving a shortage of primary care doctors. This has also led to higher system costs.

OTHER SYSTEM SHORT FALLS: In addition to costs, the existing system has other problems.

1. Most economists are of the belief that the contributions employers make toward fringe benefits, especially health care premiums, come out of the employees' take-home pay. In truth some of the health insurance premiums do. We would certainly increase some percentage of employee pay if the insurance premiums were not so egregious.
2. A major problem with employer-based health insurance is that it is not portable. Job loss and job changes terminate the existing coverage. This condition exists nowhere else in the industrialized economies. It remains very unclear how portability and employer-based insurance coverage can coexist.
3. Group health insurance premiums are "experience rated" over an individual employer's group of employees, rather than the insurance risk being spread over a large pool of insured individuals. If a serious accident or chronic illness occurs within the employer's group, it can drastically and unpredictably drive up the premiums for everyone.

This increases the profit margin for the insurance company, that is in fact covering a large pool of insured, but they are allowed to divide the pool as if they were not insuring hundreds of thousands of people.

Worse, if an employer's health insurance claims drop back to a minimal level in years following an accident, the premiums are never reduced. They continue to escalate.

An employer does not find lower rates by shopping among the many insurance options in the market. A company may drop one insurance company for another, but because it is perfectly legal for insurance companies to provide information to one another regarding the history of the business being covered, what insurance company A charges, company B also charges or simply denies coverage. Thus, the notion that there is "choice" in our system is a smokescreen invented by the insurance industry to protect their own interests at the expense of the firms, employees, and the economy they are supposedly protecting.

4. The current system does not aggressively address preventive care and wellness. While government and private insurance cannot force people into healthy lifestyles and preventive medical care, a system can and should provide incentives, early treatment interventions, and education on wellness.

Costs for preventive care and wellness programs may initially increase costs at the outset; but, can be more than offset by the reduction of future costs. For example, uncontrolled diabetes often leads to complications such as kidney failure, heart disease, poor circulation and amputations. Besides the agony to the diabetes patient, treatment for these complications becomes extremely expensive. And with proper preventive care and wellness programs, these health outcomes are completely avoidable.

5. We are not getting what we're paying for. Despite spending far more on health care than any other country:
 - The United States now ranks 37th from the top when compared to other health care systems by industrialized nations.
 - Our infant mortality rate is 29th.
 - Life expectancy is now 47th due in part to increased obesity, diabetes often brought on by the obesity, heart problems and etc.
 - With what we are spending, with our technical prowess and many superb care providers WE SHOULD BE NUMBER ONE!
6. The health care system not only provides us with poor health care, it creates problems for providers, our economy, and our government.
 - I have observed cases where the payments to providers can lag as much as three or four months. The Medicare system is overburdened not just due to the aging population, but also due to inadequate health care programs for the population before it reaches the Medicare age.
 - Also under the Medicare program the system of payments for prescription medications with the donut hole in the middle is very likely exacerbating poor health outcomes. Based upon the costs of medication for chronic conditions most of the costs top out somewhere in that donut hole and not after the insurance kicks

in again. If those with Medicare Part D cannot continue to buy their medicine, health outcomes deteriorate and costs increase as hospitalization and emergency care become more prevalent.

My Solution: FIX IT!

Ideally the whole existing system should be scrapped and re-thought. That is not practical or politically feasible. Thus, I have provided several comments that should be taken into consideration as initial steps toward a truly functioning health care system are put in place.

1. Major reductions of premiums by requiring insurance companies to honestly pool risk among all insured individuals and families. The plan proposed by Sen. Max Baucus, implementing a national Insurance Exchange, including a public option, would be a good way to make this happen. However, the Public Option should be in addition to the private insurance we already have to provide choice and competition.
2. Ensuring all Americans are covered to spread the cost is desirable, as it would potentially drop the rates. However, mandates are not an option – as it would force some small businesses to close their doors completely. Affordability is essential, including tax incentives for small businesses and individuals and an insurance subsidy for low income Americans.
3. Improve the flow of paperwork using modern information technology.
4. Limit the ability of insurance companies to deny coverage. Primary physicians and specialists know their patients, know their history, and know best what care they should receive.
5. We need to make better use of “Urgent Care Facilities” for short term or after-hours treatment when doctors are not readily available. These facilities can provide care at lower cost than hospital emergency rooms. Patients need to be made aware of this alternative assistance through local doctors’ offices and other means.
6. Because the existing system is so broken and so entrenched it may be necessary to not only make adjustments to the existing system, but to also develop a parallel system that can support the major shortfalls in the existing system that cannot easily be remedied. This may mean a public alternative.
7. Over the past several years the competition between health insurance companies has decreased as larger organizations buy up smaller ones. Fewer health insurance companies create less competition and results in higher premiums. It is Government responsibility to establish guidelines for equality for the good of all, Small Businesses, Health Care Providers and Insurance Providers as long as the system we currently have continues to be utilized.

CRIST INSTRUMENT CO., INC. A SHORT HISTORY

Crist Instrument, a woman owned business, was incorporated in the State of Maryland in late 1989. We began at the request of several leading research scientists because of the expertise of the founding members, Charles Crist, a biomedical engineer and Joan Burkholder. The company opened in Montgomery County with two employees, Mike Crist and Joan Burkholder. It grew to eight members during the first ten years when it was decided that in order to continue to serve our expanding clientele it would be necessary to move the business out of the garage and the rest of the house that had been swallowed by the growth of that business.

Ten years later we relocated the business north and west to Washington County, Maryland. During the next ten years the company has continued to grow and now employs fifteen. We are a family oriented business which includes four of my children my husband and myself. Our ages range from 24 years to 73, with a diversity of staff members comprising five women and ten men. We have employees who were born in countries like Romania, India and Columbia. We have an African American.

Our business is housed in a small building of about 7,000 square feet. When the economy improves we plan to relocate to larger facilities in the same area, preferably 20,000 to 30,000 square feet. As a result of the economic downturn business has dropped about 12 to 13% since October 2008 and we are struggling to achieve Gross Revenue Sales of \$1,000,000.

Crist Instrument designs, engineers and manufactures (all in-house) equipment for medical research, specializing in the Neurological Field. We provide a catalog and a website of Standard Off-The-Shelf products, designed and built by us, that are used by many in the field. Where we really shine is the custom design, engineering and fabrication of custom equipment not available in the marketplace.

Over the years we have made devices for in-vitro use in an attempt to alleviate swelling in the brain of prenatal infants; a device to assist the study of Parkinson Patients; Vestibular Platforms to study hearing and balance, to name a few. A couple of years ago our products were featured in a movie, "The Fountain" starring Hugh Jackman. Our products are sold globally and our firm is very well known in our industry.

Our firm exists to advance the betterment of life on Earth. The biggest problems we face include continued health insurance coverage for our people; finding good people with skills not always easily available because of our particular market niche; and currently, the sluggish economy. Right now, we really need to increase staff levels by at least four in Sales, Engineering and Manufacturing. We can't. We desperately need to move to additional space to house these people. We can't. The economy and health insurance costs are the prime deterrent.