

Common Ground: Finding Consensus on Health Reform,
the Small Business Perspective

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Chairwoman Velazquez, Ranking Member Graves and members of the Committee – I want to thank you for the opportunity to testify here today about finding solutions to make health care work for small businesses in my home state of New York and across the country.

Small Businesses' Health Care Challenges: A Ground-Level View

My name is Freddy Castiblanco, and I am the owner of Terraza 7 Train Café, a small business located in the Jackson Heights /Elmhurst neighborhood of Queens, New York. I am also a member of Small Business United for Health Care, a coalition, sponsored by the community group Make the Road New York, of New York small business owners committed to winning quality, affordable health care. We are affiliated with the national Main Street Alliance, a network of small business organizations. We have been in business for over eight years. When I immigrated to this country nearly a decade ago from Colombia, where I had practiced as a physician, I wanted to achieve the American dream and open a small business that would provide a positive space to serve the community. I also wanted to continue my studies of medicine in a country that I consider to have the greatest technological and scientific achievements in medicine. Using my savings as start up money, I opened a small café in the heart of one of the most diverse neighborhoods in the country. With my own hands and a team of employees, I built the business in a once abandoned storefront – what was formerly an eyesore on the block has become a vibrant center of neighborhood life, where people from all walks of life gather and where local artists show their work. I am proud to say that we have built our business to employ eleven dedicated employees – six full-time, and five part-time. I am proud to create good jobs and contribute to the economic vitality of my neighborhood.

As my business has grown, I have wanted to purchase a group health insurance plan that our employees could choose to participate in for themselves and their families. I have found, however, that the costs of decent health coverage are completely unaffordable for a business like mine. I have lost some of my most talented employees to other employers because I can't provide health insurance. I have witnessed my employees avoid necessary medical treatment because they feared facing a large hospital bill – what could have been small medical problems turned into larger crises because my employees lacked health coverage. Others have gone without regular check-ups and necessary preventive care for many years now and do not have a regular physician. It pains me, as an employer and as a doctor, that my employees and their families do not have the opportunity to get routine care that would help them lead a healthier life. I also know that my business could be much more productive if our employees had regular preventive care and access to the medications they need.

My hope to offer my employees health insurance coverage was crushed when I consulted a health insurance broker to find an affordable plan for my business. I found that for what I considered to be an average, fairly comprehensive benefits package, the monthly premiums would be over seven hundred dollars – for each employee. This would make health care the largest expense for my business after wages, over eighteen percent of my payroll, outweighing my rent and any other operating expenses. I considered purchasing a less expensive plan, but the high deductibles seemed unfair and ultimately not worth the cost because my employees still would not be able to afford care with the high out-of-pocket costs. Frustrated, I made the hard decision not to buy health insurance because it was simply impossible for my business to sustain the cost. Since the recession started, that is even more the case.

Small Businesses Lack Bargaining Power, Real Choices

I share my story because I believe it is emblematic of the larger health care crisis – which small businesses have been on the front lines of for years. Small businesses face a number of serious barriers to finding quality health coverage we can afford in today’s marketplace:

- Without bargaining power to negotiate with insurance carriers, we face higher rates and are vulnerable to steep year-to-year premium increases.
- We pay far more in administrative costs than larger groups.
- We face routine discrimination in states where rating rules allow small groups to be charged more for having members who are older, women, or who have prior health issues.
- And, we must deal with the confusion and lack of transparency in the marketplace, often without dedicated staff who are trained in these issues, making it difficult for business owners like me to make informed decisions and ensure that our health care dollars are being spent well.

Due to these challenges, small businesses are left without any good options. We can try to pay the premiums even as we watch the costs threaten our ability to keep the doors open, we are priced out of the market and forced to go without coverage (like me), or we settle for inferior policies that still cost a lot and don’t provide real protection. None of these are good choices.

The seriousness of this lack of choices is evident from examining the market share held by the largest health insurers. According to the American Medical Association, 94 percent of insurance markets across the U.S. are “highly concentrated” under Department of Justice guidelines. A new study released recently in New York found that, even in one of the country’s less concentrated states, the two

largest insurers still control a 47 percent share of the market. Lack of choice is an even bigger concern in the state's smaller metropolitan areas. In seven of nine metro areas across the state, the top two insurers control over two thirds of the market, and in some cases over 90 percent: in Rochester, the top two carriers control 94 percent of the market, and in Ithaca 91 percent. If I am one of the "lucky" ones in a less concentrated local market and still the best quote I can find for decent health care is \$700 per employee each month, I can only imagine what the lack of choice must mean for small business owners in Rochester or Ithaca.

Making Health Care Work for Small Businesses

Without significant reform, small business owners and their employees will continue to be caught in a bind between paying unaffordable premiums and out-of-pocket costs, foregoing needed health care, and falling victim to mounting medical debt. There is broad agreement about this point. But the consensus that health reform is necessary to promote the future prosperity of small businesses leaves a number of important questions, such as: what are small businesses really looking for in health coverage? What types of reforms do small business owners support to fix health care? Are small business owners willing to contribute toward employees' coverage? And if so, how much?

Four simple principles that should guide the discussion over making health care work for small businesses are:

- Affordable costs
- Quality coverage
- Shared commitment
- Real choice

There is general agreement on the need for affordability and for mechanisms to ensure quality coverage. I will focus the remainder of my testimony on the last two points: shared commitment and real choice. You may not hear a consensus on these two points today. But I encourage you to talk to actual small business owners in your home districts about these issues. You may find they have quite different views, and more in common, than what you might hear from some groups based here in Washington.

Shared Commitment

One of the key questions about health reform is about shared commitment, or shared responsibility. The question is, who should share in the responsibility of contributing to the cost of making health care work? This is sometimes couched in the language of “mandates” and the question is asked: “Do small businesses like the idea of a ‘mandate’?” I believe this isn’t really the right question to ask. Nobody likes the word “mandate” – this is no surprise. But if you ask small businesses do we want good health insurance for our workers? Yes, we do. Do we feel a responsibility and a commitment to our employees to help them afford health care? Yes, we do. Do we want to be part of the solution? Yes. Are we willing to contribute? Yes, we are.

To illustrate this point, a recent article in the *Wall Street Journal* about small firms being forced to drop health coverage quoted a series of small business owners, and one common theme in their words was a strong desire to contribute so their employees could be covered. “I have a terrible time handling that I can’t give them that coverage... if I think about it, I can’t sleep,” said one business owner from Texas. “It was incredibly painful, these people are like family to me and I felt like I let them down,” said another owner, from California, who was forced to drop coverage. The small business owners I know feel the same way: we want to be a part of the solution.

There seems to be an idea out there that if we don’t have a “mandate,” we won’t have to pay for health care. This ignores the reality that we are paying already. We are all paying the cost of our broken health care system – in unaffordable premiums for those who still have coverage, and in lower productivity and financial insecurity for those who do not. As the café owner, maybe it is my job to remind us all that there is no free lunch in health care.

Anyone who asks for a free ride in health reform is not only denying responsibility – they are denying reality, because we all pay. Small businesses like mine realize that the cost we cannot afford is the cost of doing nothing. That’s why we support a model that includes a shared responsibility for businesses, employees, providers and government to all contribute to make health care work. We will be far better off with shared responsibility than if health reform fails and we are left to go it alone and try to pay the whole costs of health care ourselves in the current unworkable system.

As an immigrant who has come to this country seeking opportunity, and as a business owner who has created important jobs and revenue in my community, it is important to me, as it is to many small business owners, to be able to provide health insurance to all of our employees and their families at a

rate that we can all afford. Many of my employees – like the employees of small businesses across the nation – are immigrants who have come to this country seeking a better life and who are contributing to the economy through their payroll taxes, sales tax and hard work. My employees are authorized to work here in the U.S., but many immigrants are members of mixed status families, where one family member is a citizen and others are on the path to integrating into the country. I know that our health care system is strongest when everyone is contributing and I hope that I am able to provide coverage for all of my employees and their family members.

Real Choice

In order to make it possible for us to contribute, there must be measures in health reform to ensure affordability and guarantee real choice for small businesses. This idea of choice has emerged as a key point of debate in the discussion over health reform – in particular, whether reform should include a new choice for small businesses in the form of a public health insurance option. To me, the answer seems like common sense: if a major problem we face now is lack of real choices, then putting more choices on the table will be a good thing. Let us decide what works for us. For businesses that have coverage now, let them keep it if it's working for them. For businesses that don't have good options, offer new choices, including the choice of a public health insurance plan. This will give small businesses greater bargaining power and encourage competition among insurers to make costs affordable for us.

Small business owners understand the potential value of including a public plan choice in broader reform. In a twelve state survey project of small businesses in 2008 that I participated in, over 80 percent of New York small businesses favored reform that included a public health insurance option over reform focusing on more private options. Nationally, small businesses surveyed chose the reform proposal that included the public plan option by a margin of over two to one (see *Taking the Pulse of Main Street: Small Businesses, Health Insurance, and Priorities for Reform*, www.mainstreetalliance.org/publications).

Other research supports these conclusions. According to the Commonwealth Fund, a version of comprehensive health reform that includes the choice of a public plan is projected to save over \$230 billion for private employers over 2010-2020, and close to \$3 trillion for the nation. A public plan would establish a benchmark for competition around cost and quality, and could offer small businesses immediate savings of 20-30 percent on premiums, setting a pace for private insurers to match or beat. Most striking about this research, a model for reform that includes all other cost saving features but

leaves out the public plan would only save \$800 billion over 2010-2020. In other words, taking the public plan off the table takes three quarters of the potential savings of health reform, or \$2.2 trillion, off the table, too.

I know some may argue that we should leave health reform solely in the hands of private insurers. But I ask, why put all your eggs in one basket? Small business owners are practical people. We want something that works. And frankly, it is hard for us to trust the insurance companies to solve the problems of health care. Why should we, after so many years of frustration? Insurance companies have been unable or unwilling to contain cost increases, unable or unwilling to offer us real coverage we can afford – in short, unable or unwilling to make health care work for small businesses. Why would it be in the best interest of small businesses to put all our eggs in one basket – especially when that basket has been broken for a long time?

A Common Sense Compromise

Small businesses will be the economic engine that leads our local and national economies out of the recession. I am in awe of the American entrepreneurial spirit, which has created the most powerful economic engine the world has ever known. I'm proud to be an example of that spirit in action, and I know other immigrant business owners share that pride in our contributions. I am confident small businesses will help us regain our economic stability by creating new jobs and generating new revenue in our local economies. But we need to be able to count on quality, affordable health care for our employees to make this happen. That's why I believe we need health care reform so urgently.

The outline of a common sense compromise to make health care work better for small businesses is within reach: give us more choices, including a public health insurance option that would kindle competition and drive down costs to make good coverage affordable, and you will find small business owners on main streets across America not only willing to contribute, but eager to do our part to make health care work. Thank you.