



Statement of the U.S. Chamber of Commerce

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

TO: THE HOUSE COMMITTEE ON SMALL BUSINESS

DATE: June 3, 2009

The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- numbers more than 10,000 members. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 112 American Chambers of Commerce in 99 countries affiliated with the U.S. Chamber, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. Currently, some 1,800 business people participate in this process.

**Statement on
“Common Ground:
Finding Consensus on Health Reform, the Small Business Perspective”
Hearing before the
HOUSE COMMITTEE SMALL BUSINESS
on behalf of the
U.S. CHAMBER OF COMMERCE
by
James Wordsworth
President, J.R.’s Goodtimes, Inc.
McLean, Virginia
June 3, 2009**

Good morning Chairwoman Velázquez, Ranking Member Graves and distinguished members of the Committee. Thank you for asking me to testify before you today. I commend your efforts in having this important hearing to further understand the impact of health care reforms on small business.

I am Jim Wordsworth, President of J.R.’s Goodtimes, Inc. and the owner of several small businesses. I am here to speak with you today on behalf of the U.S. Chamber of Commerce (“the Chamber”). The U.S. Chamber of Commerce is the world’s largest business federation, representing more than three million businesses and organizations of every size, sector, and region. More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. The Chamber is particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

I have been a member of the Chamber since 1990 and serve as the chair of its Council on Small Business and as the chair of its Labor Relations Committee. I was elected to its Board of Directors in June of 2001.

Company Background

Small business has been a common thread throughout my entire life. I grew up in North Carolina where I worked in a number of small businesses owned by my father, mother, grandfather, and uncles. I moved to the Washington, DC area in 1970 to work as a large computer system’s account manager for Burroughs Corporation.

In 1974, while working with Burroughs, I took my life savings and a small business loan and opened J.R.’s Steak House of Virginia, a small 130-seat fine dining restaurant. As the Steak

House proved successful, in 1978, I opened J.R.'s Stockyards Inn, a 250-seat fine dining restaurant in Tysons Corner, Virginia, and resigned from my 12-year career with Burroughs. Since that time, I have opened a number of other small businesses including two corporate picnic facilities in McLean and Leesburg, Virginia, an off-premise catering company, a marina in Stafford County, Virginia, and a company that designs and builds modular prisons. Along the way, I have also served as general partner in several small limited partnerships that acquired raw land, then planned, zoned, and developed subdivisions featuring amenities such as golf courses and waterfronts.

These businesses combined have close to 200 employees, many of whom are part time, but all who work at least 30 hours a week are eligible for comprehensive employer-sponsored health benefits that even include dental and vision, and life insurance. The employer pays 25% of the premium after the first 6 months, 50% after the first year, and then 10% additional each anniversary – up to 80% paid by the employer. And these increases mean a lot to my employees, because many of them have been with the company more than 25 years. It's a generous benefit plan, especially for a hospitality business, but our employees are our best assets – more so than the buildings and the products – and investing in them is good business. These employee benefits are important to our business because they help with employee recruiting, retention, reducing absenteeism, and maximizing productivity.

Health Reform

As you know, small businesses have an extremely difficult time finding affordable, quality health insurance for their employees. Insurers may not want to contract at all with a small group that employs high-cost individuals, or premiums may be astronomical. Sometimes premiums double more than once in a year. Small businesses must purchase coverage that complies with state mandate laws – laws that raise the costs of insurance for small business, but have no effect on large, self-insured companies. The same insurance policy might cost twice as much in one state as in the next, and small businesses generally cannot purchase policies over state lines. Worst of all, small businesses lack a streamlined way of pooling together to form meaningful risk pools, or to negotiate with insurance companies, further disadvantaging small businesses in the purchase of health insurance when compared to large businesses. Businesses currently pay more than \$500 billion a year to voluntarily offer health insurance to employees, and thus have a major stake in reforming the system.

Due in part to the dire situation faced by businesses struggling to offer or maintain employer-sponsored health insurance coverage, Congress is currently considering some policy changes that could have a profoundly helpful effect on the ability of small businesses to purchase coverage. Congress is also considering some policies that would make things worse, causing more small businesses to avoid providing benefits and hurting the economy.

Positive Steps

The biggest barrier that prevents small businesses from providing health benefits to employees is the cost of insurance. Congress is currently considering many strategies to combat rising health care costs, to bend the cost curve, to make health care more affordable and to

improve its quality. The Chamber applauds these efforts – especially proposals to pay for performance and not just quantity of care, to improve care coordination and explore bundling payments, reduce hospital readmissions, and more. We support robust implementation of health information technology (HIT), increased transparency of quality and cost information, and efforts to support administrative simplification (which will necessitate Congress stepping in and creating some national standards that override state rules). The Chamber continues to support Congress in creating a pathway to FDA authorization of biosimilar drugs, as well as creating an unbiased and apolitical entity to research the comparative effectiveness of different medications, therapies, and procedures. Congress is also considering leading the way by implementing these reforms in Medicare, as well as rooting out fraud and waste in the program. In the long run, these changes are critical to eventually bending the cost curve.

However, Congress is also considering some changes that will be extremely beneficial to small businesses almost immediately. Among these is fair regulation of insurance companies through the creation of a national health insurance exchange (“the exchange”). By setting national rules that require health insurers to issue policies to all comers, preventing drastic variances in the cost of coverage, putting an end to pre-existing condition restrictions, and changing insurers’ incentives from avoiding risk to managing health, Congress will make health insurance much more affordable to small businesses. The Chamber hopes that Congress will not allow the states to restrict such changes to only the individual or micro-business groups, but rather will apply these changes to the entire small-business market – with a national rule made to define to which entities these changes apply.

The exchange could be a powerful tool for connecting individuals and small businesses with insurers, and helping them to shop smart and find the best fit policies. All sizes of businesses should be allowed to participate in the exchange, if they choose to, and it should include pooling arrangements that help spread risk and give maximum leverage to consumers and small business. But it should be up to an employer whether or not to participate – employees who opt out of employer coverage should not be incentivized with credits, and especially not with forced employer contributions to the exchange. Ideally, employers would be able to join ERISA-like plans through the exchange that operate under national, not state rules, and imitate the successful pooling and procedures of the plans currently offered by large companies. Chairman Velazquez’ CHOICE bill would be an excellent step in the right direction, creating a pooling and reinsurance mechanism that could help small businesses control costs, manage risks, and build more predictability into their premium structure.

Small businesses are also grateful that Congress is considering subsidies for small businesses to insure their employees, and to create wellness programs. These subsidies, because of the tax structure and strategies of many small businesses, should be refundable, flexible, and apply to a large swath of small businesses – not just to the smallest micro-businesses.

Steps in the Wrong Direction

Some in Congress, however, are advocating short-sighted changes that will lead to an eventual flight of employers from sponsoring health benefits – a change that would profoundly hurt employees. Currently, employees benefit greatly from the participation of employers in

providing benefits; employers act as negotiators, expert advisors, and trusted advocates for employees before insurance companies. Employers want to offer coverage, but if costs continue to rise, or if flexibility and choice are removed from the process, employers will not be able to continue, or start, to provide benefits.

Euphemistically referred to as “shared responsibility,” many in Congress are insisting on the creation of a mandate that employers sponsor insurance coverage for employees, or be forced to pay into a fund. As discussed earlier, employers want to provide insurance, but many are precluded from doing so by high costs, low profit margins, or insurance market problems. The idea that an employer mandate will increase coverage is illusory, because new rules will not change financial realities for small businesses. Worse, a mandate could cost hundreds of thousands of jobs, could prevent businesses from hiring new workers, or could increase outsourcing and company restructuring in efforts to avoid the mandate. This would have the opposite of the desired effect, reducing coverage rather than increasing it.

Congress might propose to carve out some small businesses from an employer mandate, but in the end these carve-outs tend to shrink and disappear. Proposals in the Senate attempting to target only medium-to-large employers would actually be devastating to small employers, and would have damaging effects even on some micro-businesses. In effect, smaller employers would still likely be swept into these new mandates.

An employer mandate is also not a viable strategy to fund health reform. A prime example of the folly of counting on employer excise fees or taxes imposed as punishment for not providing health insurance is the Massachusetts health reform plan. Since the plan’s inception, Massachusetts has collected only a minor fraction of their estimated income from employer fees, which has added to the program’s overall massive shortfalls. If employers are forced to foot the bill for health reform, these costs will be passed on to workers – certainly not an ideal recipe for economic recovery in these trying times. A better option would be to create an individual obligation to obtain health insurance; this would bring market forces to bear on employers. Employers who wanted the best talent, and to be competitive at all, would have to do their best to offer benefits that satisfied the individual obligations of potential employees – and those employees they want to keep!

Another area that could prove problematic is Congress’ designation of a minimum level of insurance necessary to satisfy any individual or employer requirements. Minimum standards for benefits need to be truly minimum – let the standard fall somewhere in the vicinity of having coverage for catastrophic events to avoid medical bankruptcy (high-deductible plans) and having coverage of preventative services. It should be the purview of the individual, or the offering employer, whether or not to offer benefits beyond this. Surely many businesses would continue offering generous benefits in order to invest in and maintain a quality workforce.

Ideally, if Congress puts in place aggressive insurance market reforms and a robust exchange, a government-run health insurance company will be unnecessary. However, any new public program must compete on a level playing field with private insurers. Employers of all sizes have serious concerns about the consequences this could have on the insurance marketplace, on employer-sponsored coverage, and on the nation’s finances. A public program

would have to be on exactly equal footing as private insurers in order to compete fairly, and reasonable people can disagree as to whether it is possible for Congress to be at the same time both the referee setting rules and a team owner competing. Employers currently see a huge cost-shift from public programs like Medicare and Medicaid (a recent Milliman study found this cost-shift to be 20-30 percent), and a large new public program could have dire consequences for employer costs. Worse, Medicare and Medicaid currently have vast unfunded obligations, and creating a new program that could take general revenue transfers and was not walled off from public financing after its initial founding would be mortgaging our grandchildren's futures.

The Chamber also has concerns about proposals to tax employee benefits – Congress should keep in mind that capping the employee exclusion has been a long time goal of policy wonks who believe that a national, standardized cap will lead to reducing regional variations and lowering the costs of health care and insurance coverage. However, proposals to cap or eliminate the exclusion only for high income earners represent a “soak the wealthy” mentality that is unhealthy for the nation's fiscal policy as well as useless from a health policy perspective.

The funding challenges of health reform legislation may in fact be overstated; rather than attempt to completely offset the costs of health reform legislation at the get-go, Congress should factor in the vast savings that can be obtained by covering the uninsured, reforming entitlements, and building a more affordable, quality-driven health care system. The Congressional Budget Office operates under severe restraints that prevent it from taking into account any savings that would be realized outside of a small budget window, that does not account for clinical predictions, and thus does not depict an accurate cost and savings scenario on the subject of health care legislation. Congress should avoid getting bogged down trying to fully offset legislation, and focus on passing reform legislation that has broad support from both sides of the aisle and important stakeholders, including premium payers.

Conclusion

The Chamber is eager to work with Congress to enact, this year, comprehensive health reform legislation. We believe it is imperative to take action to control health care costs and give more Americans access to sustainable coverage – especially those who work for small businesses that currently are not able to offer health insurance benefits. That being said, the business community will not support reform for the sake of reform. Congress must work with stakeholders, build bipartisan support, maintain fiscal responsibility, and operate according to the oldest principle in health care: first, do no harm. As Congress continues to explore ways to increase access to coverage, bend the cost curve, and reform government programs, the Chamber looks forward to ensuring that the goals and priorities of small business are taken into account.