

STATEMENT FOR THE RECORD

**BEFORE HOUSE SUBCOMMITTEE ON HEALTH CARE, DISTRICT OF
COLUMBIA, CENSUS AND THE NATIONAL ARCHIVES**

ON

**HEARING ON IMPACT OF PATIENT PROTECTION AND AFFORDABLE
CARE ACT ON JOB CREATORS**

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This testimony is submitted in support of the small business perspective on the Patient Protection and Affordable Care Act and its impact on small businesses, our nation's chief job creators.

Small Business Majority is a national nonpartisan small business advocacy organization founded and run by small business owners and focused on solving the biggest problems facing small businesses today. We represent the 28 million Americans who are self-employed or own businesses of up to 100 employees. Our organization uses scientific opinion and economic research to understand and represent the interests of small businesses.

The Affordable Care Act will help reduce the cost of insurance and medical care while making coverage affordable, fair and accessible. There is a legitimate role for government in passing laws that address private sector business activity.

That's why passage of the Affordable Care Act was so critical, because small businesses needed relief from the high costs of health insurance. Business owners are pragmatic and bottom-line oriented. Preventing or delaying all regulation that might in some way affect small business would be shortsighted and could actually remove an important tool that can stimulate small business innovation and contain costs. Indeed, our research has shown small business supports government as a facilitator and an arbiter that sets rules of the road.

The effects of legislation on the private sector should be carefully considered as each bill is being debated; not via a blanket one-size-fits-all approach. The first items on small businesses' list of concerns are the need for customers and finding ways to deal with burdensome expenses. In many cases, government can help.

Our research shows that reforming our broken healthcare system has been and still is one of small business owners' top concerns, and that the majority of small employers

believe reform is needed to fix the US economy. It also shows that small businesses support key provisions in the law, specifically ones that help them better afford insurance, such as tax credits and insurance exchanges, and those that contain costs. Controlling skyrocketing costs is essential to ensuring small businesses' ability to obtain high-quality, affordable healthcare for themselves, their families and their employees. Our research also shows that absent reform, these costs would continue to escalate, undermining small businesses' success and our economic recovery. The new law goes a long way toward fixing our broken system and stemming these spiraling costs, while helping to create jobs and stimulate the economy.

Our research, which is discussed in more detail below, shows the impact this legislation will have on small businesses and reveals that small businesses support many provisions in the law, especially those that benefit them immediately, such as the small business tax credits. In July 2010, Small Business Majority partnered with Families USA to determine the number of small businesses eligible for a tax credit on their 2010 tax returns, one of the key provisions of the Affordable Care Act.

- We found that more than 4 million small businesses would be eligible to receive a tax credit for the purchase of employee health insurance in 2010. ¹

We also commissioned a national survey of 619 small business owners to determine their views on the tax credits and insurance exchanges, another crucial provision of the Affordable Care Act for small businesses. The survey, which was released on Jan. 4, 2011, found that:

- Both the tax credits and the exchanges, once they take effect, make small business owners more likely to provide healthcare coverage to their employees;
- One-third of employers who don't offer insurance said they would be more likely to do so because of both the small business tax credits and the insurance exchanges;
- 31% of respondents who currently offer insurance said the tax credits and the exchanges will make them more likely to continue providing coverage. ²

However, the poll also found that the vast majority of small business owners don't know the tax credits or exchanges exist to help them afford coverage.

As Congress holds hearings critical of the Affordable Care Act, it's important to understand the consequences doing nothing would have had on small businesses and our fragile economy.

- Small businesses wouldn't have \$4 billion per year in healthcare tax credits and many small business protections, including a ban on denying coverage for preexisting conditions. This provision will provide much-needed help to many

¹ Families USA and Small Business Majority, A Helping Hand for Small Businesses: Health Insurance Tax Credits, July 2010, <http://smallbusinessmajority.org/small-business-research/tax-credit-study.php>.

² Small Business Majority, Opinion Survey: Small Business Owners' Views on Key Provisions of the Patient Protection and Affordable Care Act, Jan. 4, 2011, <http://smallbusinessmajority.org/small-business-research/small-business-healthcare-survey.php>.

Americans, including the legions of self-employed individuals—many who currently can't get coverage because of this reason;

- Small businesses would have no ability to pool their buying power through state insurance exchanges, and the various cost controls the ACA puts in place would not exist;
- Tough enforcement measures in the law, which are saving billions in Medicare waste, fraud and abuse, would also not exist. This would result in higher taxes for employers and employees to fund Medicare, and higher taxes mean fewer jobs.

These are just some of the disastrous consequences our healthcare system absent of the Affordable Care Act would have on small businesses—consequences that are too severe on our nation's primary job creators. Small businesses create 70% of new jobs in our country. Spending less on health insurance will help them generate larger profits, which will help speed our journey down the road to economic recovery.

My testimony highlights the issues of greatest importance to small businesses in the Affordable Care Act. It explains what we have learned from our scientific research about both the opinions of small employers and the economic impact of reform on small businesses, including the consequences repealing the Act would have on them and the economy overall. The key issues are:

- Healthcare costs are the No. 1 problem facing small businesses;
- The status quo was unacceptable—doing nothing would thwart economic growth and job creation;
- Moving forward: strengthening the law will help small businesses thrive; and
- How the Affordable Care Act is helping small business owners now.

Healthcare Costs are the No. 1 Problem Facing Small Businesses

National surveys of small business owners consistently show that the cost of health insurance is their biggest overall problem. In fact, the crushing costs of healthcare outranked fuel and energy costs and the weak economy for 78% of small business people polled by the Robert Wood Johnson Foundation in 2008.³

Small businesses are at a disadvantage in the marketplace largely because our small numbers make rates higher. According to research supported by the Commonwealth Fund, on average we pay 18% more than big businesses for coverage.⁴ Small businesses, including the self-employed, need a level playing field to succeed and continue as the job generators for the U.S. economy.

We hear stories every day from small business owners who can't get coverage because they've been sick in the past or the health plans they are offered are outrageously priced. Louise Hardaway, a would-be entrepreneur in the pharmaceutical products industry in

³ Robert Wood Johnson Foundation, Study shows small business owners support health reform, 2008, <http://www.rwjf.org/coverage/product.jsp?id=36558>.

⁴ J Gabel et al, Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii is Up, Wyoming is Down, *Health Affairs*, May/June 2006, <http://content.healthaffairs.org/content/25/3/832.full>.

Nashville, had to give up on starting her own business after just a few months because she couldn't get decent coverage—one company quoted her a \$13,000 monthly premium.

Many other businesses maintain coverage for employees, but the cost is taking a bigger and bigger chunk out of their operating budgets. It's common to hear about double-digit premium increases each year, eating into profits and sometimes forcing staff reductions. Small business owner Walt Rowen, owner of Susquehanna Glass Co. in Columbia, PA, was quoted a 160% premium increase from his carrier last year, forcing him to find a new plan. These rising bills frequently force business owners to hack away at the insurance benefit to the point where it's little more than catastrophic coverage. That leaves employees with huge out-of-pocket expenses or a share of the premium they can't afford, forcing them to drop coverage. That concerns Larry Pierson, owner of a mail-order bakery in Santa Cruz, California, who says "the tremendous downside to being uninsured can be instant poverty and bankruptcy, and that's not something my employees deserve."

Small business owners want to offer health coverage, and our surveys show that most of them feel they have a responsibility to do so. Small Business Majority conducted surveys of small business owners in 17 states between December 2008 and August 2009.⁵ Our key findings included:

- An average of 67% of respondents said reforming healthcare was urgently needed to fix the U.S. economy;
- An average of 86% of small business owners who don't offer health coverage to their employees said they can't afford to provide it, and an average of 72% of those who do offer it said they are struggling to afford it.

It should be noted that respondents to these surveys included an average of 15% more Republicans (39%) than Democrats (24%), while 27% identified as independent.

The exorbitant cost of insurance means that many small businesses are forced to drop coverage altogether. According to the Kaiser Family Foundation, 54% of businesses with fewer than 10 employees don't offer insurance.⁶

This makes small business employees a significant portion of the uninsured population. Of the 45 million Americans without health insurance in 2007, nearly 23 million were small business owners, employees or their dependents, according to Employee Benefit Research Institute estimates.⁷ And nearly one-third of the uninsured—13 million people—are employees of firms with less than 100 workers.⁸

⁵ Small Business Majority, State Surveys Highlight Small Business Support for Healthcare Reform, August 2009, <http://www.smallbusinessmajority.org/small-business-research/opinion-research.php>.

⁶ Kaiser Family Foundation/HRET, Employer Health Benefits Annual Survey, 2008, <http://ehbs.kff.org/2008.html>.

⁷ Employee Benefit Research Institute, Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2008 Current Population, http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3975.

⁸ Center for American Progress, What Will Happen to Small Business if Health Care Is Repealed, July 23, 2010, http://www.americanprogress.org/issues/2010/07/small_biz_reform.html.

With staffs of 5, 10 or even 20 people, small businesses are tight-knit organizations. Owners know their employees well and depend on each employee for their businesses' success. They don't want to see their valuable employees wiped out financially by a health problem, or ignore illnesses because they can't afford to go to the doctor.

The Affordable Care Act addresses all these issues and more. Without reform, we will impede our overall economic growth. Small businesses with fewer than 100 employees employ 42% of American workers.⁹ Traditionally, small businesses lead the way out of recessions. Continuing to address the healthcare crisis by implementing the Affordable Care Act is essential to our vitality as a nation. A repeal of this landmark legislation would send our primary job creators back into in a broken system that threatens their competitiveness, discourages entrepreneurship and jeopardizes our economic recovery.

The Status Quo was Unacceptable

The shock of failing to move forward with reform would have reverberated throughout the US economy. When you examine what a failure to implement the reforms would mean financially for America's 28 million small businesses, the picture is bleak. In June 2009, Small Business Majority commissioned noted economist and Massachusetts Institute of Technology professor Jonathan Gruber to apply his healthcare economics microsimulation model to the small business sector. He focused on businesses with 100 or fewer employees.¹⁰ Our research showed that without reform:

- Small businesses would pay nearly \$2.4 trillion over the next 10 years in healthcare costs for their workers;
- A staggering 178,000 small business jobs, \$834 billion in small business wages, and \$52.1 in profits would be lost due to these healthcare costs;
- Nearly 1.6 million small business workers would continue to suffer from "job lock," where they are locked in their jobs because they can't find a job with comparable benefits. This represents nearly one in 16 people currently insured by their employers.

In an article he wrote for the Center for American Progress, Gruber again addressed the issue of job lock.¹¹ He noted that "such a system significantly distorts our labor markets by forcing individuals to stay in jobs that offer health insurance rather than to move to newer and more productive positions where coverage is not available. Millions of U.S. workers are not moving to better jobs or starting new businesses because there is nowhere to turn for insurance coverage should they leave their jobs."

The Affordable Care Act remedies this problem and levels the playing field to support entrepreneurs willing to take a risk and start a new enterprise. Insurance reforms provided in the new law protect these entrepreneurs, and the insurance exchanges

⁹ U.S. Bureau of Census, 2006 County Business Patterns

¹⁰ Small Business Majority, The Economic Impact of Healthcare Reform on Small Businesses, July 2009, <http://www.smallbusinessmajority.org/small-business-research/economic-research.php>.

¹¹ J Gruber, Be Careful What You Wish For, Repeal of the Affordable Care Act Would Be Harmful to Society and Costly for Our Country, *American Progress*, Jan 2010, http://www.americanprogress.org/issues/2011/01/aca_repeal.html.

established by the law allow the self-employed and small businesses to pool together for lower premium rates.

The Center for American Progress has also weighed in on what small businesses would lose if the Affordable Care Act were lost. The percentage of small businesses offering coverage has decreased from 68% in 2000 to 59% in 2007; without the ACA, this downward spiral would continue. Since 40% of small employers spend more than 10% of their payroll on healthcare costs, repealing or dismantling the law would cause those already providing insurance to do so at the expense of increased wages. This would result in less profits, business investment and job creation. Additionally, it would mean small businesses would continue to pay on average 18% more for health insurance than large firms. And they won't get the financial relief tax credits and insurance exchanges will provide.¹²

Healthcare reform will also reduce the “hidden tax” associated with health insurance. Repeal would keep this tax in place. The uninsured often delay treating their health problems until they become severe, and public and charity programs pick up a share. However, a portion remains unpaid. To cover the cost of this uncompensated care, health providers charge higher rates when the insured receive care, and these increases get shifted to consumers and small businesses in the form of higher premiums. This creates a “hidden health tax” that inflates the cost of premiums.¹³

Instead of helping us move forward, repealing or dismantling the ACA would send us back to the status quo and ensure that small businesses will be unable to play their historical role as the country's primary job creators. In fact, Harvard professor David Cutler projects repeal would destroy 250,000 to 400,000 jobs annually over the next decade, increase medical spending by \$125 billion by the end of this decade and add nearly \$2,000 annually to family insurance premiums.¹⁴ His summary of what repeal would do to the country is as dismal as it is succinct: “It would hurt family incomes, jobs, and economic growth.”

Moving Forward: Strengthening the Law will Help Small Businesses Thrive

Critics of the new law have wasted no time in attempting to repeal it, yet have offered no pragmatic solutions on how to address the core problem—the excessive cost of health insurance. Instead of attempting to dismantle the law, which goes a long way toward reducing costs throughout the system while increasing choice and competition in the market, opponents should instead spend their energy trying to make provisions they deem weak stronger.

For example, states are responsible for setting up health insurance exchanges by 2014, and as this process continues and state lawmakers deliberate on how to comply with the law, it's critical that all of us give them a framework to make the exchanges work well for small businesses. Constructive suggestions to make the law work its best include:

¹² Center for American Progress, What Will Happen to Small Business if Health Care is Repealed, 2010, http://www.americanprogress.org/issues/2010/07/small_biz_reform.html.

¹³ Kathleen Stoll and Kim Bailey, Hidden Health Tax: Americans Pay a Premium (Washington: Families USA, May 2009).

¹⁴ D Cutler, Repealing Health Care is a Job Killer, Center for American Progress, 2010. http://www.americanprogress.org/issues/2011/01/jobs_health_repeal.html

- Ensuring that the health insurance exchanges are active purchasers of health plans so they can negotiate for the best rates possible;
- Giving states greater authority on rate review so if premium hikes occur, the state can do more than just say the hike is excessive—it can actually prevent it to protect small business owners;
- Encouraging state policymakers to appoint small business owners to exchange boards so the small business perspective is well-represented in all of the board’s decision making; and
- Continuing to find ways to cut down on waste, fraud and abuse in the healthcare system. These factors contribute to healthcare costs for everyone, including small business owners, and innovative solutions to this problem help all consumers.

How the Affordable Care Act Is Helping Small Business Owners Now

Our research shows that small business owners are more likely to provide insurance to their employees because of the tax credits and exchanges provided through the new healthcare law. As I mentioned in my introduction, our most recent research includes a national survey of 619 small business owners that was conducted from November 17-22, 2010.¹⁵ We wanted to gauge how entrepreneurs view two critical components of the Affordable Care Act: the small business tax credits—a provision allowing businesses with fewer than 25 employees that have average annual wages under \$50,000 to get a tax credit of up to 35% of their health insurance costs beginning in tax year 2010—and health insurance exchanges—online marketplaces where small businesses and individuals can band together to purchase insurance starting in 2014. The survey’s key findings include:

- One-third (33%) of employers who don’t offer health insurance said they would be more likely to do so because of the small business tax credits;
- 31% of respondents—including 40% of businesses with 3-9 employees—who currently offer insurance said the tax credits will make them more likely to continue providing insurance;
- One-third (33%) of respondents who currently do not offer insurance said the exchange would make them more likely to do so;
- The same is true for those who already offer insurance, with 31% responding that the exchange would make them more likely to do so;
- However, most respondents are not familiar with the exchange or the tax credits; only 31% of respondents are familiar with the exchange and 43% are familiar with the tax credits.

We believe that once the public, and small business owners in particular, become more familiar with the new law, they will understand the financial benefits and cost savings it provides. In fact, a Kaiser Family Foundation study conducted in January 2010 found

¹⁰ Small Business Majority, Opinion Survey: Small Business Owners’ Views on Key Provisions of the Patient Protection and Affordable Care Act, Jan. 4, 2011, <http://smallbusinessmajority.org/small-business-research/small-business-healthcare-survey.php>.

that although the public was divided overall about reform, they became more supportive when told about key provisions. After hearing that tax credits would be available to help small businesses provide coverage to employees, 73% said it made them more supportive, and 63% felt that way after learning that people could no longer be denied coverage because of preexisting conditions.¹⁶

The huge number of small businesses eligible for a credit on their 2010 tax returns shows how wide-ranging the benefits of the ACA are: Small Business Majority and Families USA's study on the number of small businesses eligible for a tax credit on their 2010 tax returns shows that more than 4 million small businesses are eligible.¹⁷ That equates to 83.7% of all small businesses in the country. Perhaps even more encouraging is that more than 90% of small businesses in 11 states are eligible to receive the tax credits, with nearly 1.2 million small businesses nationally eligible to receive the maximum credit.

A recent RAND Health study also examined the impact of the Affordable Care Act on health insurance coverage for workers at small companies. It found that once the new law takes full effect, the percentage of employers that offer insurance will increase from 57% to 80% for firms with fewer than 50 employees, and from 90% to 98% for firms with 51 to 100 employees.¹⁸ Additionally, a study released Jan. 24, 2011 by the Urban Institute (funded by the Robert Wood Johnson Foundation) also shows the positive benefits of the ACA on America's employers. The study debunks claims that the ACA would erode employer-sponsored coverage by providing incentives for employers to stop offering coverage, or that businesses would face increased costs as a result of reform. To the contrary, the study found that overall employer-sponsored coverage under the ACA would not differ significantly from what coverage would be without reform, but that in fact employer-sponsored insurance premiums will fall noticeably, by nearly 8%, and total spending on healthcare by small businesses will also decrease by nearly 9% because of healthcare exchanges and other provisions of the new law.¹⁹

Aside from these important provisions, the Affordable Care Act gives small employers the power to keep their plan as long as it was in place before reform was enacted on March 23, 2010. These plans are often referred to as "grandfathered plans."

Small businesses are allowed to keep their grandfathered plans as long as they don't make any significant changes in coverage. If any of the following changes are made, the plan can no longer keep its grandfathered status—which means that all the new consumer protections introduced with reform will apply. These changes include:

- Increasing medical costs to employees;
- Reducing the employer contribution;

¹⁶ Kaiser Family Foundation, Americans Are Divided About Health Reform Proposals Overall, But the Public, Including Critics, Becomes More Supportive When Told About Key Provisions, Jan. 22, 2010, <http://www.kff.org/kaiserpolls/kaiserpolls012210nr.cfm>.

¹⁷ Families USA and Small Business Majority, A Helping Hand for Small Businesses: Health Insurance Tax Credits, July 2010, <http://smallbusinessmajority.org/small-business-research/tax-credit-study.php>.

¹⁸ RAND Corporation, "How Will the Affordable Care Act Affect Employee Health Coverage at Small Businesses?" 2010, http://www.rand.org/pubs/research_briefs/RB9557/index1.html.

¹⁹ Urban Institute, "Employer-Sponsored Insurance Under Health Reform: Reports of Its Demise Are Premature," Jan. 24, 2010, http://www.rwjf.org/coverage/product.jsp?id=71749&cid=XEM_749842.

- Significantly cutting or reducing the plan's benefits; and
- Adding or tightening the annual limit.

This fair, practical approach gives small business owners more flexibility in the wake of healthcare reform, while also including important protections that do impact grandfathered plans. These protections include the extension of dependent coverage to the age of 26, the elimination of lifetime and annual limits, the elimination of preexisting condition exclusions and limits on rescissions.

Additionally, the ACA establishes insurer efficiency standards in the form of the Medical Loss Ratio, or MLR. It requires 80% of premium dollars be spent on care, not administrative overhead and executive compensation, for small group and individual plans. For large groups plans, the standard will be 85%. Ensuring the maximum amount of premium dollars go to pay for healthcare instead of administrative costs, the MLR will help keep premiums down so small businesses can save on healthcare-related expenses and invest in their companies. That means more jobs and greater economic growth. Without the MLR, healthcare reform would lack the teeth needed to lower health insurance premiums and hold insurers accountable for unnecessary overhead costs that have nothing to do with medical care and more to do with poor accounting policies and minimal oversight.

The ACA also includes numerous reforms in Medicare that will reward value of care, not the volume of care. It requires the Department of Health and Human Services (HHS) to adopt value-based purchasing and payment methods for Medicare reimbursements for both physicians and hospitals, and move away from the fee-for-service system that is so costly and inefficient. What's more, cost containment measures made to Medicare will have a ripple effect to other areas of the system, further reducing costs. Harvard professor David Cutler points out the steps the Affordable Care Act takes to cut these costs:

- Payment innovations including greater reimbursement for preventive care services and patient-centered primary care; bundled payments for hospital, physician, and other services provided for a single episode of care; shared savings approaches or capitation payments that reward accountable provider groups that assume responsibility for the continuum of a patient's care; and pay-for-performance incentives for Medicare providers;
- An Independent Payment Advisory Board with the authority to make recommendations that reduce cost growth and improve quality in both the Medicare program and the health system as a whole;
- A new Innovation Center within the Centers for Medicare and Medicaid Services, or CMS, charged with streamlining the testing of demonstration and pilot projects in Medicare and rapidly expanding successful models across the program;
- Profiling medical care providers on the basis of cost and quality and making that data available to consumers and insurance plans, and providing relatively low-quality, high-cost providers with financial incentives to improve their care;
- Increased funding for comparative effectiveness research;

- Increased emphasis on wellness and prevention.²⁰

Rather than focusing on dismantling healthcare reform, lawmakers should focus on improving it, especially when it comes to cost containment. While the new law is a good start toward fixing our system and strengthening our economy, we should be bolstering it even more by including additional cost containment provisions. This will bring health inflation down and help businesses create more jobs.

We realize that the Affordable Care Act isn't a perfect law, and like all legislation, will need to be improved over time. However, analysis after analysis shows that the new Affordable Care Act holds significant promise toward empowering small businesses to provide their employees with health insurance, and to be able to do so without breaking the bank.

Conclusion

Healthcare reform is not an ideological issue; it's an economic one. Small business owners know this, which is why they overwhelmingly support reforming our broken system and containing the skyrocketing cost of insurance.

Without the reforms in the ACA, small businesses will once again be mired in a system that drains their coffers and stunts their growth—disabling them from playing their vitally important role as the nation's jobs creators. We hope Congress will spend its time focusing on ways to make implementation of the Affordable Care Act as smooth as possible, and on ways of strengthening the productive partnership the private sector can have with government; instead of trying to dismantle it, fix the parts that need improvement. Our small businesses and our economic recovery depend on it.

²⁰ David Cutler, Repealing Health Care Is a Job Killer, Center For American Progress, Jan. 7, 2011, http://www.americanprogress.org/issues/2011/01/jobs_health_repeal.html.