

**Statement of Jim Houser, Hawthorne Auto Clinic and
Main Street Alliance of Oregon**

**To: Subcommittee on Health, Employment, Labor and Pensions of the
House Education & Workforce Committee**

**Hearing on: "The Pressures of Rising Costs on Employer Provided Health
Care"**

March 10, 2011

Introduction

Chairman Roe, Ranking Member Andrews, and members of the committee,

Thank you for the invitation to testify regarding trends in health insurance costs and their impact on small businesses.

My name is Jim Houser. I am an ASE Certified Master Automotive Technician and co-owner of Hawthorne Auto Clinic in Portland, Oregon, a family business I founded with my wife, Liz Dally, 28 years ago. I am also co-chair of the Main Street Alliance of Oregon, a small business group in my state, and serve on the national steering committee of the Main Street Alliance, a national network that creates opportunities for business owners to speak for ourselves on issues that impact our businesses and our local economies.

When Liz and I opened Hawthorne Auto Clinic in 1983, we made the commitment to offer health insurance to our workers. It seemed like the right thing to do, and it made good business sense. Auto repair is a high-skill field where offering good benefits to keep experienced technicians is very important. We're also an aging profession. The makeup of our small group shows it, and with the current system of age rating where you're penalized for having older workers in your group, we have suffered relentless increases in our insurance costs year after year.

A Stacked Deck: Small Businesses at a Disadvantage in the Insurance Marketplace

Small businesses are recognized as the engines of the American economy. The country looks to the innovation and entrepreneurship of small businesses to create jobs and drive the economic recovery. But for decades, a health care marketplace that stacks the deck against small businesses has put us at a disadvantage.

The conditions small businesses have faced in the insurance marketplace of the last decade include:

- Small businesses' health care costs have grown 129 percent since 2000.
- We pay on average 18 percent more than large firms for the same level of coverage.
- Administrative costs can be two and a half times higher (sometimes even more) for small businesses compared to larger firms.
- High levels of market concentration, combined with a version of "competition" between insurers that is based on cherry-picking healthy enrollees rather than competing to offer the best services at the best rates, leave small businesses with few real options and nowhere to turn when double digit rate hikes strike again.

- Tens of millions of small business owners, our employees, and dependents forego health coverage altogether because the costs have been out of reach: of the 49 million Americans living without health care (up from 40 million in 2000), an outsized majority – about 60 percent – work for small businesses, according to the Employee Benefit Research Institute.

Cost Trends at Hawthorne Auto and Impact of the New Health Law

I know from my own experience that the pressure of rising insurance rates over the last decade, without health reform, has been severe and unrelenting. At my business, insurance costs for our nine full-time employees and covered dependents doubled from 2002 to 2010, reaching over \$100,000 last year. That figure represented more than 20 percent of our payroll, adding greatly to our cost of doing business.

This year, we witnessed a minor miracle: our premiums went *down* 3 percent. It's the first time in my memory they've declined.

A provision of the Affordable Care Act has allowed my 22-year-old daughter, a recent college graduate, to rejoin our insurance plan. I'm not sure if that's why our premiums went down (because we're now sharing our health care risk over a larger, younger, and healthier pool of enrollees), but either way I'm glad our family business can actually cover our family again.

We're also eligible for the new small employer premium tax credits in the law, and my accountant says we should get back between \$5,000 and \$10,000 this year. Combine that with the premium decrease and we're going to save 8 to 10 percent on our health insurance this year due to the Affordable Care Act.

Broader Trends in Insurance Rates and Claims of Connection to the ACA

I'm aware that many health insurers are continuing to pursue steep rate increases – from Blue Shield of California's push for increases of up to 59 percent to Anthem in Maine's legal battle with the state. I'm also aware that some insurance lobbyists are trying to pin these increases on the new law.

This claim just doesn't pass inspection. If insurers are jacking up their rates – yet again – it's *in spite of* the new health law, not *because* of it. If anything, insurers are seizing the moment to hit customers with one more off-the-charts increase while they can still get away with it, before measures to rein in those increases take effect.

Even insurance executives admit the rate increases aren't because of the new law. New York Times correspondent Robert Pear reported in an article on rising insurance rates that a senior vice president at Harvard Pilgrim in Massachusetts said only one percentage point of this year's increases was attributable to the federal law. And, according to this insurance company executive, that was mainly due to the requirement for free preventive services – a requirement that makes a lot of sense to me in the auto repair business.

As my mechanics will tell you, customers who have us perform regular preventive maintenance rarely get towed in for unanticipated, expensive repairs. Similarly, it's much more cost effective to spend \$200 to get a patient's blood pressure under control than to spend \$50,000 for the ER response to a stroke. Preventive measures – whether in auto repair or health care – are an investment that pays off big in the long run.

Health Law Gives Small Businesses New Tools to Put Brakes on Rising Insurance Costs

Whatever the lobbyists say, the fact is the health law is giving small businesses tools to put the brakes on rising insurance rates in a number of ways. The following are some examples:

➤ ***Small Employer Health Premium Tax Credits***

Business owners across our network from my Portland, Oregon to Portland, Maine are already benefiting from the new tax credits effective for tax year 2010. My accountant tells us we should expect to receive a credit of between \$5,000 and \$10,000 on our 2010 taxes. Other businesses that offer health coverage and pay half the cost can qualify for a credit of up to 35 percent now through 2013 and 50 percent in 2014. That's serious savings for a small business. It's like a time machine, turning the clock back on insurance rates. It's hard to think of a single other step that could cut a small business's insurance bill by 35 percent in one go.

➤ ***Consumer Protections that Benefit Small Businesses***

The Affordable Care Act puts in place important consumer protections in the small group and individual insurance markets where small business owners, our families, and our employees get health coverage. These protections include a ban on pre-existing condition exclusions, new limits on insurance caps, and the ability to keep adult children covered up to age 26 (this is the provision that has allowed us to re-enroll my daughter in our business's plan). These provisions will increase the quality of the coverage for small businesses and our employees. The under-26 provision will also help us spread risk across a broader age range to reduce our rates, as illustrated by the story of my business and my daughter.

➤ ***Strengthening Premium Rate Review***

After years of enduring double-digit rate increases with no recourse, I'm encouraged that Oregon and other states have new tools and new resources to review insurance rates and require insurers to provide justification for unreasonable rate increases. This is one of the most direct ways to protect small businesses and help us do our part to create jobs and grow the economy. Given the high level of market concentration in the health insurance industry and the absence of true competition (competition based on consumer value rather than competition based on cherry-picking risk pools), we need stronger rate review to protect small businesses from unreasonable rate increases.

➤ ***Medical Loss Ratio Requirements and Value for Premiums***

Running a small business, remembering the importance of providing real value to our customers becomes second nature. Somehow, it seems health insurance companies have lost sight of that basic tenet of good business. Minimum medical loss ratio requirements will restore a focus on ensuring value for our premium dollars. If insurers fail to meet this standard, insurance customers like us will receive cash rebates to make up the difference. It's high time we had a value guarantee like this in health insurance.

➤ ***State Insurance Exchanges: Transparency, Choice, and Bargaining Power***

The state insurance exchanges currently being designed will level the playing field for small businesses. By creating a mechanism whereby we can band together and shop for coverage in one large pool, the exchanges will give us greater transparency, more choices, expanded risk pooling, and more bargaining power. In Oregon, as many as 970,000 people are predicted to enroll in the exchange. I can't wait to join a group of almost a million people. For small businesses that currently have groups of 20 people, 10 people, or less, banding together in the exchange will represent an exponential leap in our bargaining power.

➤ ***Cutting the "Hidden Tax"***

Small businesses that have insurance now currently pay a "hidden tax" (estimated at over \$1,000 per insured family and over \$350 per insured individual in 2008) resulting from the cost-shifting of uncompensated care costs. By getting tens of millions more people insured and paying into the system up front, the new law should significantly reduce this cost-shifting and cut this hidden tax.

Conclusion: Small Businesses Moving Forward on Health Care

Small businesses are moving forward on health care:

- Nationally, the Kaiser Family Foundation reports the percentage of employers with 3 to 9 employees offering health coverage rose from 46 percent in 2009 to 59 percent in 2010 – in part due to the ACA’s tax credits.
- Information from states also indicates that small businesses are taking advantage of the opportunity to start (and continue) offering health coverage. For example:
 - Blue Cross Blue Shield of Kansas City recently reported that after letting local businesses know about the new tax credit, they enrolled more than 9,000 new members covered by 400 new employers. The company reported a 58 percent increase in small businesses purchasing insurance since April 2010, the first month after the passage of the ACA.
 - Blue Cross and Blue Shield of Nebraska reported a 34 percent increase in health insurance sales to small businesses for the new year.
 - A spokeswoman for Blue Cross of Idaho reported a “huge increase” in the number of small employers requesting quotes, and a shift in employers keeping coverage for their workers.

Efforts to repeal or defund the health law will only hurt small businesses that are already benefiting or looking forward to the benefits of the new law. Even the possibility of repeal creates uncertainties that are harmful to business planning and job growth. For example, if the law is repealed, will I have to return my tax credit? What about next year – will I be able to bank on the credit and use that money to invest in my business, or not? And, will my family business be able to continue providing coverage to our family, including my 22-year-old college graduate daughter – or will she be bounced off our plan and left vulnerable to medical debt just as she’s working to get on her feet and launch a career?

We can’t afford to go back to a system that stacks the deck against small businesses. We’ve got to keep moving forward. With proper implementation of the health care law, we can level the playing field for small businesses, get meaningful control of insurance costs, and allow small businesses to focus on what we do best: things like fixing cars, creating jobs, and building local economies, in Oregon and across America.

Thank you.