

**U.S. House of Representatives  
Committee on Education & the Workforce  
Subcommittee on Health, Employment, Labor and Pensions**

**Hearing: “Barriers to Lower Health Care Costs for Workers and Employers”**

**Testimony of Jody Hall  
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Seattle, Washington  
On Behalf of the Main Street Alliance of Washington**

**May 31, 2012**

Chairman Roe, Ranking Member Andrews, and members of the HELP Subcommittee,

Thank you for the invitation to testify before your subcommittee on the topic of barriers to lower health care costs for business owners and workers. I appreciate the opportunity to share my experiences and perspective on these issues as a small business owner.

My name is Jody Hall. I own Cupcake Royale, a cupcake bakery and café business in Seattle, Washington. I'm also a leader in the Main Street Alliance of Washington, a statewide network of local, independent small businesses in Washington State that gives small business owners like me a voice on the most pressing public policy issues facing our businesses.

I founded my business in 2003. When we opened our first shop in Seattle's Madrona neighborhood with 10 employees, we were taking a risk. It was the country's first cupcake bakery to open outside of New York City. The risk paid off. Our made-from-scratch-daily cupcakes were an instant hit. Over the years, we've expanded to five locations in Seattle and neighboring Bellevue.

Cupcake Royale is recognized as a local institution. We're proud to employ 72 people (adding up full-time and part-time workers, we have 45 full-time equivalents). This year, I was honored as the Small Business Person of the Year by the Greater Seattle Business Association. I'll be rushing to get home to Seattle tonight to take care of the final details for opening a new store in July near Pike Place Market in downtown Seattle. That will be our sixth location, and I expect we'll be hiring another 15 employees for the new store as we continue to grow.

From day one, I built my business model on the notion that a good business supports a strong local economy and gives back to the community that supports it. We partner with Washington farmers and producers as much as possible: our flour comes from a handful of wheat farmers in Eastern Washington who mill it specially for our needs and our dairy is local along with fresh fruit from nearby farmers. And we donate over 40,000 cupcakes a year to help raise funds for local non-profits.

I also built my business on a commitment to treating my workers like family. That includes offering health care coverage. We offer health care to all employees who work over 28 hours a week and we pay 75 percent of the cost. It's an important part of our business values to offer health care. The way the costs have risen over the last decade, it's also been a huge challenge. Between 2004 and 2010, we were faced with rate increases routinely exceeding 20 percent – reaching as high as 40 percent in 2009. In 2011, our health care costs were more than \$67,000.

We've got to take steps as a country to get these costs under control. Small businesses – and the country as a whole – can't afford the cost of doing nothing. And we've got to do it in smart ways that ensure decent quality, promote informed choice, and guarantee good value for our health care dollars. That's why I support the Affordable Care Act and the measures it includes to lower health care costs while promoting quality, choice, and value for small businesses and our employees.

### **Barriers to Lower Health Care Costs: How the Health Care Reform Law Helps**

Some of the biggest barriers we face to getting decent health coverage as a small business stem directly from our size. Before I started my business, I worked in corporate America for 13 years, and one of the biggest surprises when I decided to go out on my own and start my own enterprise was how little we got in terms of health care benefits for almost twice the dollars (and these plans only covered medical – not dental and vision, which were included in my corporate packages). When we have to brave the health insurance market on our own, whether with the 10 employees we started with or the 72-plus we have now, we're still too small to have any bargaining power, effective risk-pooling, or economies of scale.

### *A State Health Insurance Exchange*

The state insurance exchanges made possible by the Affordable Care Act are going to change that. A state insurance exchange will give us the opportunity to band together with thousands of other small businesses across Washington State. There are more than 120,000 private sector

firms in Washington State with fewer than 100 employees that could be eligible to join the exchange, and these firms employ almost 900,000 people.<sup>1</sup>

I can't wait for Washington's exchange to open its doors for enrollment. Joining a pool with hundreds of thousands of participants will be a huge improvement in risk-pooling, efficiencies of scale, and negotiating clout for my business and for small businesses across the state. We'll finally be able to tap into the kind of bargaining power that big companies like Starbucks and Microsoft enjoy.

#### *Other Provisions of Health Care Reform that Put Downward Pressure on Insurance Rates*

The health insurance exchange is the biggest thing I'm looking forward to from the health care reform law, but there are also other provisions that are taking effect already and helping to put the brakes on rising insurance premiums.

One example is the 80/20 value for premiums rule, or "minimum medical loss ratio" requirement, which requires health insurers to spend at least 80 percent of our premium dollars on actual health care costs or pay a rebate to consumers. For small business owners who know that offering good value to our customers is critical to our survival, the idea that we deserve a basic guarantee of value from our health insurance companies is common sense. The first rebate checks are due in the mail this summer and independent researchers have estimated that health insurance customers are going to get back in the vicinity of \$1.3 billion in premium over-payments. That's a nice shot in the arm for small businesses and other insurance purchasers. And it doesn't even count downward adjustments in rate hikes taken by insurers to comply with the 80/20 rule and avoid owing even more in rebates.

Another example is the health care law's support for more careful review of proposed rate increases. In Washington, where we already have strong rate review laws on the books, this part

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<sup>1</sup> Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2010 Medical Expenditure Panel Survey – Insurance Component; Table II.A.1(2010) Number of private-sector establishments by firm size and State: United States, 2010, [http://www.meps.ahrq.gov/mepsweb/data\\_stats/summ\\_tables/insr/state/series\\_2/2010/tiia1.htm](http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2010/tiia1.htm); Table II.B.1(2010) Number of private-sector employees by firm size and State: United States, 2010, [http://www.meps.ahrq.gov/mepsweb/data\\_stats/summ\\_tables/insr/state/series\\_2/2010/tiib1.htm](http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2010/tiib1.htm)

of the law is allowing our state to strengthen its systems for collection, analysis, and reporting of data, and to increase transparency for consumers.<sup>2</sup> For small businesses in the many states across the country that didn't already have strong laws like Washington's, the rate review rules are doing even more to bring much-needed scrutiny to double digit rate hikes by requiring insurers to publicly post the justifications for their proposed increases and ensuring review of these proposed increases by insurance experts.

These early provisions of the health care law are making a difference. My rate increase this past year was a lot lower than I'd come to expect from my experience over the past five years. And I've heard stories of small business owners across the country who've seen their rates held flat this year. Some have even had their rates cut, while keeping the exact same coverage.<sup>3</sup>

### *Employer Responsibility and Reducing Health Care Costs*

The employer responsibility provision of the ACA is another way the law will help lower insurance costs for businesses like mine. This piece of the law is often presented as a problem for small businesses. I believe the opposite is true. As a business owner who's doing the right thing and offering health coverage to my workers, the real problem for me is that when other businesses my size (and bigger) don't offer health care, I'm forced to subsidize their health care costs. The shifting of uncompensated health care costs to businesses that pay for health insurance costs my business hundreds of dollars per employee per year. How is that fair?

Opponents of the health care law argue that the employer responsibility requirement will hurt job creation. I disagree. More than 9 out of 10 businesses with 50 or more employees already offer health coverage.<sup>4</sup> Think about it this way: for every business around the 50 FTE threshold that doesn't already offer coverage, there are multiple others that do. Right now, the barrier to job

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<sup>2</sup> "Health Insurance Premium Grants: Detailed State by State Summary of Proposed Activities," HealthCare.gov, <http://www.healthcare.gov/news/factsheets/2010/08/rateschart.html>

<sup>3</sup> "Health care reform: good for business," *The Baltimore Sun*, April 1, 2012, <http://www.baltimoresun.com/news/opinion/oped/bs-ed-obamacare-business-20120401,0,6828504.story>

<sup>4</sup> Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2010 Medical Expenditure Panel Survey – Insurance Component; Table I.A.2(2010) Percent of private-sector establishments that offer health insurance by firm size and selected characteristics: United States, 2010, [http://meps.ahrq.gov/mepsweb/data\\_stats/summ\\_tables/insr/national/series\\_1/2010/tia2.htm](http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2010/tia2.htm)

creation for the businesses that do offer health care – like mine – is the fact that we’re subsidizing the ones that don’t. The only way to fix this is through a system of shared responsibility where all businesses above the threshold pitch in and nobody takes a free ride at the expense of the rest of us.

### *Opportunities to Keep Moving Forward on Health Care*

Does more need to be done to fully fix health care for small businesses? Yes. I believe we need to build on the new health care law and take further steps to help small businesses, not tear it down and throw us back into the broken health insurance marketplace that visited rate hikes of 20, 30, and 40 percent on businesses like mine.

One opportunity to move forward that I would encourage you to support is an expansion of the ACA’s small business health care tax credit. Not enough businesses are benefiting from the credit in its current form. While some elected officials are using this news as an excuse to criticize the credit and the whole ACA, that’s not helpful to small businesses. If you want to help us, it would make more sense to ask the question, “What can we do to make this credit work for more of our small businesses?”

For my own business, we’re not eligible for the credit because we have more than 25 full-time equivalents (FTEs). Why not expand that FTE requirement to 50, 75, or even 100 employees? Under a recent proposal to expand the credit, I could be eligible for a credit of about 8 percent of my health care costs – around \$5,000. If you’ve built a bridge and you find out not enough cars can get across, you don’t blow it up, you find a way to build it wider. You have an opportunity to do that with the small business health care tax credit. I hope you will take it.

### **Alternative Proposals: Will They Work for Small Businesses?**

Opponents of the Affordable Care Act say they want to replace it with something else. Some of these ideas sound good as talking points, but what will their real impact be on small businesses?

We hear a lot about the idea of “letting health insurers sell across state lines.” This sounds fine, but in reality this is a back-door way to get around basic protections put in place at the state level

to make sure when we buy an insurance policy, it's worth more than the paper it's written on. "Across state lines" is really an invitation to insurance companies to throw quality and value out the window and start selling junk health insurance. If you want to give small businesses more bargaining power, that's what the state insurance exchanges in the ACA will do – without compromising the basic standards of quality and value we have in place now. The state of Georgia passed a "cross state lines" law last year and it didn't work: not a single out-of-state insurer applied to sell a new product in the state.<sup>5</sup>

Another "alternative" we hear a lot about is health savings accounts. They're marketed on the idea that they will make people make more responsible choices about health care utilization. But the reality is HSAs are another form of high-deductible, low-coverage insurance, which for many people in many years means paying a monthly premium to basically be uninsured. This is not a solution, either – it's just shifting more risk and shifting more costs onto small businesses.

## **Conclusion**

The Affordable Care Act is taking critical steps forward to address the barriers to lower health care costs and bring affordable, good quality health coverage within reach for small businesses. Many businesses are already seeing the benefits as early provisions of the law take effect. We have even more to look forward to with the establishment of the state health insurance exchanges and other provisions that are still on their way.

We need to keep building on the foundation of the ACA, not tear it down. Small businesses across Washington State and across the country can't afford to go back to the broken health care marketplace we faced before reform. We need to keep moving forward.

By taking full advantage of the opportunities created by the Affordable Care Act, we can break down the barriers to lower health care costs and finally level the playing field for small businesses. Then business owners like me will be able to focus our full attention on building our businesses, creating jobs, and strengthening our local economies. Thank you.

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<sup>5</sup> "No out-of-state insurers offer plans in Georgia," *Atlanta Journal-Constitution*, April 30, 2012, <http://www.ajc.com/news/no-out-of-state-1428329.html>