



Statement of the U.S. Chamber of Commerce

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

TO: The House Committee on Education and the Workforce's Subcommittee on Health, Employment, Labor and Pensions

DATE: March 10, 2011

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 the interests of 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, 70 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—is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, 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. More than 1,000 business people participate in this process.

Testimony on
“The Pressures of Rising Costs on Employer Provided Health Care”
Submitted to
THE HOUSE COMMITTEE ON EDUCATION AND THE WORKFORCE
SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR AND PENSIONS
on behalf of the
U.S. CHAMBER OF COMMERCE
By
Brett Parker
Vice Chairman and Chief Financial Officer
Bowlmor Lanes
New York, NY
March 10, 2011

Chairman Roe, Ranking Member Andrews and distinguished members of the Subcommittee, thank you for the opportunity to testify before you today on the pressures businesses face from the rising costs of providing employees with health care benefits. I commend your efforts to further understand the impact the new health care law will have on the ability of businesses, including small ones like mine, to compete, grow and create jobs as well as our capacity to offer our employees health care benefits.

I am Brett Parker, Vice Chairman and Chief Financial Officer of Bowlmor Lanes, which is headquartered in New York City. I am here to speak with you today on behalf of the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of 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, 70 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.

The Chamber did not support the status quo before passage of the health care law – in fact, we were parties to a number of collaborations aimed at building bipartisan reforms that would lower health care costs. We opposed the misnamed Patient Protection and Affordable Care Act (PPACA) because it failed to rein in costs, and instead increased them, while loading job creators with mandates, regulations, new taxes and burdens. Rather than solve the problems in the health care system, PPACA ignores costs and instead redistributes money from producers in order to fund vast new entitlements and expand old ones – this was not an improvement over the status quo, it was a step backwards. Instead, the Chamber believes that we should replace PPACA, advance market-based reforms, and focus on lowering costs, increasing competition, and improving the health care delivery system.

Company Background

In 1938, the original Bowlmor Lanes opened its doors in the heart of Greenwich Village. During the golden age of bowling from the 1940s to 1960s, Bowlmor Lanes was at the forefront of the bowling revolution, hosting the prestigious Landgraf Tournament in 1942 and one of the first televised bowling tournaments in 1955. Through the 1970's and 1980's, Bowlmor Lanes was home to the top bowlers in the sport and became a regular hangout for village hipsters. But in the 1990's, as the popularity of bowling as a sport declined, so did the condition of the bowling alley.

Bowlmor Lanes, as we know it today, was formed in 1997 under the leadership of our CEO, Tom Shannon, who secured financing, purchased the original Bowlmor location and completely remodeled the internal operations by infusing his vision of upscale design elements and dramatic architecture into what had become a tired and depilated space. The overhaul of Bowlmor Lanes saw the installation of video screens, glow in the dark lanes and lane side food and drink service. Simply put, we strove to make bowling a relevant activity to the city's residents and businesses again. And Bowlmor has achieved this goal and continues to grow and prosper. By 1999, Bowlmor Lanes became the highest-grossing bowling alley in the United States. Today, it stands as one of the longest contiguously running bowling alleys in the country.

Following the phenomenal success of Bowlmor Lanes in New York City, we knew that the Bowlmor concept could be introduced in other locations across the country. Today, we have a total of six locations in four states: two in New York, two in California, one in Florida and one in suburban Washington, DC, specifically Bethesda, Maryland. At each location, our objective is to blend a great American pastime with an upscale entertainment experience. And nowhere is this more exemplified than our newest venture – Bowlmor Lanes Times Square – where we invested \$25 million, creating construction jobs in New York City and positions for the 179 individuals we directly employ there. With the doors to our new flagship location opened on November 23, 2010, Bowlmor Lanes has taken bowling to new heights – dividing 45 lanes of luxury bowling into 6 intimate themed lounges. Each lounge is themed to represent iconic places and time periods in New York City – Times Square, Chinatown, Central Park, Art Deco, Prohibition and Pop. Bowlmor Lanes Times Square also features The Stadium Grill, an upscale sports bar and restaurant that fuses innovative American cuisine with premier sports and entertainment viewing. We are proud of our new flagship, as well as our growing business – Bowlmor has grown from 50 to over 500 employees in the last ten years; we are creating jobs.

We are quite excited about our new venue in Times Square and proud of what it says not just about our company but the entrepreneurial resilience of visionary, hard-working, risk-taking men and women throughout our great nation. With the economic downturn, Bowlmor Lanes took a hit like most businesses in the United States. While I am guardedly optimistic that the worst is behind us, I will point out that we did not cower from this challenge or simply hope things would somehow play out favorably. We tightened our belts and continued to work hard and smart. We took concrete action, and perhaps most importantly, we moved proactively to fight our way out of this economic mess without looking for the government to guide the way. We are entrepreneurs – we believe in ourselves and our business and we are willing to take risks and put our reputation on the line. And we are confident that we can succeed, as we have in the past, in growing our business and creating jobs. I have unfortunately found that many of the roadblocks we face to doing those

very things – expanding our business and generating new jobs – are erected by the government. Whether it is the threat posed by card check, the absurdity of the new 1099 reporting mandate or the anxiety, complexity, disorder, uncertainty and overall peril the new health care law and its array of mandates imposes, we feel like the Federal government time and again creates obstacles to success and, by doing so, increasing the likelihood of failure. These forces combine to make future investments in growing our business less and less attractive.

Health Care

Bowlmor Lanes currently employs 532 members on our team, with our workforce comprised of 258 full-time employees and 274 part-time employees. We have a healthy, profitable, viable business that grows by developing and opening new units which, of course, means more jobs. In considering whether to expand and open a new Bowlmor Lanes operation, we have to very critically evaluate the costs of doing so, with particular scrutiny given to factors that increase our cost of doing business. For Bowlmor Lanes to develop a new location, we need to have \$2-3 million in equity. Therefore, when the costs of implementing a new law or regulation threaten to reduce the cash flow from our existing locations, it stunts our growth. Having reviewed the new health care law, it seems probable that we will sustain a per capita cost increase on existing full time employees of at least \$2,000 per employee. These fines quickly increase over time and confound Bowlmor’s ability to invest, develop more locations, and create more jobs. As demonstrated by the chart below, the health care law may well incinerate more than \$26 million that Bowlmor would have invested, as well as more than 500 jobs we could have created. The damage gets worse every year the employer mandate, and the health care law, are in effect. The bottom line is that our ability to expand, to open a new operation and create new jobs is very sensitive to costs increases that will make existing venues less profitable and future increases that will make all venues more expensive to operate.

Bowlmor Job Loss Rate Expected from PPACA

	<u>Year</u>					<u>Aggregate Impact</u>
	1	2	3	4	5	
Lost Cash From Operations of New Units	\$ -	\$ 348,000	\$ 991,800	\$ 2,156,730	\$ 4,237,466	\$ 7,733,996
Lost Cash From Healthcare Penalties	\$ 464,000	\$ 510,400	\$ 561,440	\$ 617,584	\$ 679,342	\$ 2,832,766
Lost Units	0.2	0.4	0.8	1.4	2.5	5.3
Lost Jobs	23	43	78	139	246	528
Lost Investment	\$ 1,160,000	\$ 2,146,000	\$ 3,883,100	\$ 6,935,785	\$ 12,292,020	\$ 26,416,905

Currently, Bowlmor offers health insurance to exempt employees; Bowlmor pays one third of the premium and employees pay the remainder, with an option for an employee to buy more comprehensive coverage if he/she so chooses. When it comes to health insurance, we have been continually forced to weigh the difficult choice between increasing costs to the company and our employees, with reducing coverage. We have been forced to continually reduce coverage over time to ensure that our employees can afford the costs of insurance. Unfortunately, this was the only way that we could continue to offer coverage without running ourselves out of business or inducing our staff to opt out of coverage. Every year we pay more and get less, and under the new law it appears

that this process could get even worse. And there has been so much market consolidation already, we have very few insurance companies to choose from.

Under the new health care law, the coverage Bowlmor offers will likely not be considered sufficient to avoid the employer mandate, which will penalize us to the tune of about \$2,000 per full time employee. To minimize losses sustained due to this mandate, we will have to do whatever it takes to keep employees part-time, not allowing them to work 30 hours a week. We are very unhappy about the effects this will have on our employees – for example, an employee who currently works full-time in our kitchen will be shifted to part-time status with Bowlmor and he/she will likely have to find another part-time position at another restaurant or similar business. While Bowlmor would definitely rather not disrupt our full-time employees like this, we must do so to protect existing jobs. Unfortunately, even if Bowlmor found a way to offer coverage that meets the new law's standards, we would still be subject to fines – whenever our coverage fails to meet the affordability threshold for a low income employee and that employee gets a subsidy to purchase coverage in the new exchanges, Bowlmor would be fined \$3,000 per head. This is a big incentive for us to stop offering any coverage at all. The structure of the penalties and mandates in the health care law seems to suggest that proponents want businesses to drop coverage and pay a fine, perhaps to funnel all Americans into government-run structures and eventually toward a nationalized health care system.

As the costs of the health care law and other burdensome mandates continue to pile up, Bowlmor will be forced to look for other ways to control costs and this may mean reducing our workforce. For example, Bowlmor Lanes currently provides in-person service at the lanes, but we are exploring the possibility of deploying touch screen kiosks that customers could use instead. We prefer to not have to go this route because the in-person service provides our clients with a personal experience and we would prefer to keep our staff employed; however, our hand is being forced by costly mandates and regulations. We must take action to protect the greatest number of existing jobs possible.

Another provision in the new law requires that companies with 200 full time employees automatically enroll workers in their health insurance plan. This would be a disaster for a company like Bowlmor, with a somewhat transient workforce, high turnover, and a large number of low wage employees. These employees do not want to purchase benefits, and automatically enrolling them would be contrary to both their financial interests and their wishes – not to mention an administrative nightmare. Even worse would be a requirement that employers automatically enroll employees in a plan with no value to them: if Bowlmor is pressured into participating in the CLASS Act Ponzi scheme, workers will be automatically enrolled in a program they not only have no interest in, but one that they will likely never realize any benefit from. Provisions like this make it blindingly obvious that people with any real-world business experience had very little input into the health care law.

If Bowlmor attempts to continue offering benefits, we can look forward to more expensive insurance thanks to the health care law. First the law will require a host of new benefits that we will have to pay for, including adding “adult children” up to age 26 as dependents, no cost-sharing allowed for some services, no annual or lifetime limits, etc. These might be nice to have, but when businesses are struggling to afford health insurance, these changes make insurance more expensive.

The law also makes affordable, high-deductible plans worse – a new cap on Flexible Spending Arrangements will reduce employee flexibility, and a new requirement prohibits employees from spending their own money in health accounts unless they have a prescription for things like aspirin, Allegra, and other over-the-counter drugs.

Next we have a host of new taxes to look forward to, taxes that would make Bowlmor's health insurance more expensive. Taxes on prescription drugs and medical devices will be passed on to consumers – meaning Bowlmor and our employees. Even more egregious, a new small business health insurance tax will hit companies like Bowlmor who purchase fully-insured health plans, while big businesses that self-insure will not pay the tax. I will not even discuss the looming so called "Cadillac" tax, which will be imposed in 2018. And let us not forget that the 1099 paperwork mandate is still out there, and unless the House and Senate can come to an agreement on how to offset the costs of repealing it, businesses like Bowlmor will be buried in useless tax filings.

While repealing the 1099 provision would be a good start, Bowlmor and businesses like ours will suffer if all Congress does in the next two years is repeal 1099s and talk about repealing the whole health care bill. If Congress really wants to help us grow the economy and create jobs, we ask that you do two things – take the health care bill apart piece-by-piece, and pass real health reforms that will actually lower our costs. First and foremost repeal the job-destroying employer mandate; Senator Hatch introduced a bill to do that in the Senate that has 26 co-sponsors, but nobody in the House has introduced companion legislation. Also, please go after the more than \$500 billion in new taxes the health care bill created.

To actually help lower health insurance costs, Congress could consider a broad array of reforms, including medical liability reform, opening up health insurance markets to more competition, and allowing businesses to create new pooling mechanisms. Bowlmor's costs are directly increased because of cost-shifting from Medicare and Medicaid as well; so business has a big stake in helping you reform those entitlement programs. More transparency in the medical world would help drive greater efficiency and quality, so Congress should release the massive CMS claims database and allow that information to be used to report on the quality and efficiency of providers.

Conclusion

Congress knows that the national debt is now more than \$14 trillion. You know the annual deficit will be \$1.5 trillion if the President's budget proposal is enacted into law. And you know that our unfunded liabilities, promises that we have made under current law, for Medicare, Medicaid, and Social Security are more than \$100 trillion. Congress knows that somehow our children and grandchildren are going to be forced to pay those costs, and still they created an entirely new health care entitlement that will add untold amounts to our promises going forward. Worse, it seems that small businesses are being forced to pay for this new spending through higher taxes, benefit mandates, and increased regulation. This is bound to reduce our value to society as investors and job creators, to shackle innovation, stifle economic growth, and create more fear and uncertainty about the future. If we did business the way the Congress that passed the health care bill did, we would already be out of business.

This hearing is aptly entitled “The Pressures of Rising Costs on Employer Provided Health Care.” From the perspective of Bowlmor Lanes, the costs incurred with the new health care law will greatly hinder our ability to expand and develop new venues and create new jobs. While the existing political reality makes a total repeal of the law impossible during this Congress, I am hopeful that this body will make it a priority to repeal the most objectionable provisions like the employer mandate, which impose burdens on businesses and hinder job creation and growth. Also, I hope you will look to real reforms to lower cost, like tort reform. And throughout this process I would ask that you be continually mindful of how your decisions directly and oftentimes inadvertently impact businesses in this nation. It is companies like Bowlmor Lanes and millions of others like us that serve as the engines of economic growth in the United States. We are the job creators; please, rebuild an environment that encourages, not suppresses, business growth, entrepreneurship, investment, and job creation.

Thank you for this opportunity to testify, and I look forward to your questions.