REIMAGINING THE HEALTH CARE MARKETPLACE FOR AMERICA'S SMALL BUSINESSES

HEARING

BEFORE THE

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HOUSE OF REPRESENTATIVES

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CONTENTS

OPENING STATEMENTS

WITNESSES

APPENDIX

REIMAGINING THE HEALTH CARE MARKETPLACE FOR AMERICA'S SMALL BUSINESSES

TUESDAY, FEBRUARY 7, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, King, Luetkemeyer, Brat, Radewagen, Kelly, Blum, Comer, Bacon, Fitzpatrick, Marshall, Velázquez, Evans, and Lawson.

Chairman CHABOT. The Committee will come to order. Good morning. We want to thank everyone for being here with us today so that we can discuss a critical issue facing America's small businesses, what I could consider to be a catastrophe our health insurance marketplace.

In my opinion, and in the opinion of many, President Obama's signature legislation has proven to be a disaster, especially for America's small businesses. From the very beginning, promises were made which turned out to be untrue. The American people were told that premiums would decrease by $2,500. Instead, average premiums and job-based coverage have increased by $3,775. President Obama famously promised, and I quote, "If you like your doctor, you can keep your doctor. If you like your healthcare plan, you can keep your healthcare plan." Nothing, as it turned out, could have been further from the truth.

As a result of losses in the market, major insurers have bolted for the exits. Their withdrawal from Obamacare-established marketplaces left little to no competition within the exchanges, leaving consumers fewer choices in health insurance options. Doing nothing is not an option because the current system is in, quite frankly and literally, a death spiral. We need to enact real patient-centered reforms that lower costs, improve portability, and ensure coverage for the millions of Americans who are struggling to find affordable and reliable health insurance.

In 2016, the National Federation of Independent Businesses, NFIB, published a survey which found that the cost of health insurance continues as the number one problem small businesses face. NFIB members are not the only ones concerned. In late 2015, the National Small Business Association, NSBA, released a survey that found that while the majority of employers think offering health insurance is very important to recruiting and retaining good employees, just 41 percent of firms with up to 5 employees offered

health benefits, and that is down from 46 percent in 2014. Overall, the NSBA survey found that 65 percent of small firms reported offering health insurance in 2015, down from 70 percent in 2014.

Survey results like these track with what we have been hearing from our constituents for the past 8 years. We all hear from small business owners in our districts who want to provide health insurance for their employees, not just as a recruitment and retention tool, but also out of a sense of duty to do the right thing for their workers and their families. It is important to remember that the damage done by Obamacare was not limited to the new problems it created for the healthcare marketplace. It also exacerbated and made worse longstanding problems in that marketplace.

While we have a badly damaged system right now, I believe there is light at the end of the tunnel. We have a real opportunity to enact positive change, and we are going to do it the right way, and I believe a better way. America's small businesses will not be an afterthought or a bill payer this time around. We are going to listen to what they are telling us because they are on the frontlines and can help us create the step-by-step solutions that will improve access, lower costs, and fix a broken system.

We have an excellent panel of witnesses today, and I want to thank each and every one of them for coming here, and very shortly here, testifying before us. We thank you for your time, and I would now like to yield to the ranking member for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. I am going to try. If not, I will ask Mr. Evans to read my statement. Can you understand me? Yes? Okay, good.

Seven years ago, the president signed into law the Affordable Care Act. For the over 20 million people that have secured coverage, it has not been a disaster. This gain has been significant for small business employees. Between 2013 and 2015, the number of uninsured small business employees dropped by 4.1 percent million, and their uninsured rate fell from 27 percent to less than 20 percent. These individuals not only gained insurance coverage, they gained high-quality insurance coverage. The ACA instituted reforms to—can you read this?

Mr. EVANS. Many of these reforms were particularly important for small businesses. Before the ACA, one employee's rare illness could cause insurers to drastically raise rates for the entire firm. Now the insurance companies are not allowed to charge higher premiums based on health status, insurance claims, or gender. The insurance market is fair and more consumer-friendly than it was seven years ago. The ACA has ushered in a period of freedom for entrepreneurs who no longer will have to choose between starting their own business and retaining their health benefits.

I recently held a healthcare event in my district. One New York entrepreneur said, and I quote, "I would not be able to own my business without the Affordable Care Act." The act has also contributed to reducing healthcare cost growth. In recent years, premium rates increases in the employer market has been modest. Between 2010 and 2015, premiums raised 27 percent, significantly lower than the 69 percent increase from 2000 to 2005.

As with any major law of this complexity, there have been challenges in implementation for many eligible firms have not taken advantage of the small business tax credit. Similarly, markets have had mixed success in the Small Business Health Option Program. I look forward to hearing testimony today on these programs that could be improved.

However, rather than working together to develop targeted reforms, Republicans want to throw out the baby with the bath water. For years, they proposed little more than repeal with vague, at best, planned replacement. Even today, there is no agreement upon a concrete plan or legislative path to replacement. Experts agree that even with a partial repeal without a concurrent replacement will destabilize the market.

The Congressional Budget Office estimated that repealing the Affordable Care Act, the reconciliation would cause 30 million people to lose coverage over the next decade. This coverage drop would cause nearly $1.7 trillion in lost revenue to hospitals, doctors, and other providers between 2019 and 2028. At the same time, demand for uncompensated care would skyrocket.

CBO also predicts that premiums in the non-group market would increase by 20 percent to 25 percent. This increase would reach about 50 percent in the years following the elimination of the Medicare expansion and the marketplace subsidies. Even if the Affordable Care Act is repealed with a delay, uncertainty in the marketplace would likely cause a significant premium increase in insurance market exists. These sweeping proposals are careless and will cause a great deal of damage to our healthcare system and every American who relies on it.

Small firms are not being served by our healthcare system and face many challenges before the Affordable Care Act. The Affordable Care Act sought to provide small firms with greater stability, flexibility, and cost controls. Though we have seen considerable gains, more work remains through a thoughtful and bipartisan examination of the policies, we can make targeted improvements that better serve small firms. I hope my Republican colleagues will join me in this examination and abandon their dangerous and disruptive plan for repeal.

Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you very much. The gentleman and gentlelady yield back.

If Committee members have an opening statement prepared, I would ask that they be submitted for the record.

And I will take just a moment to explain our timing and lighting system here. We operate by the 5-minute rule, both the witnesses and the folks up here, so we ask that you stay within that. There will be a green light that is on there for 4 minutes. Then the yellow light will come on to let you know that you have got a minute to wrap up. And when the red light comes on, we would ask you to stay within that. We will give you a little leeway, but not a whole lot, so we would ask you to follow that, if you would.

And I would now like to introduce our very distinguished panel here today.

Our first witness is Tom Secor, president of Durable Corporation, a small manufacturing and master distributor of loading dock

bumpers and floor matting, primarily serving the material handling and janitorial supply industries, located in Norwalk, Ohio since 1941. He has been with Durable since 1993, which currently employs 37 people. Mr. Secor is an active small business advocate, serving on the Board of Directors for the National Small Business Association, who he is testifying on behalf of today, and the Ohio Chamber of Commerce. We welcome you to the Small Business Committee.

Our second witness is Keith Hall, President and Chief Executive Officer of the National Association for Self-Employed, NASE. As a 23-year member of the organization, Keith has served as Chief Operating Officer, Chief Financial Officer, and National Tax Advisor. He has also spent time on the board of directors. He began his career with the international accounting firm of KPMG, and later served as the chief financial officer for a medium-sized bank and a long-term care provider. Mr. Hall is a certified public accountant and has provided consulting and tax services to small businesses for over 20 years, and we welcome you here as well this morning.

And up next is Kevin Kuhlman, the director of Government Relations at the National Federation of Independent Business, NFIB. He manages NFIB's House of Representatives lobbying team in advocacy strategy, specializing in healthcare and health insurance issues. He also closely follows the regulatory process and comments on regulations that impact the NFIB's membership. Before joining NFIB in 2011, he handled healthcare, labor, education, and small business issues for Congressman Peter Roskam from Illinois. He started his career in Capitol Hill in 2006 as a support research staff member for the Committee on Ways and Means. We thank you for being here as well.

And I will now yield to the ranking member for the introduction of our fourth witness.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

It is my pleasure to introduce Dania Palanker. She is an assistant research professor at the Center on Health Insurance Reforms at Georgetown Health Policy Institute. She analyzes state and federal insurance market reforms and is an expert on health benefits provision of the ACA and ERISA. She is also chair of the Plan Management Advisory Committee of the District of Columbia Health Benefits Exchange. Ms. Palanker holds a J.D. from Georgetown University and an MPP from the Harvard Kennedy School. She received her B.A. from Middlebury College. Welcome, and thank you for being here.

Chairman CHABOT. Thank you. And Nydia, I think you will acknowledge, I did not do it, did I? I had nothing to do with this?

Ms. VELÁZQUEZ. I guess that—well, I do not know.

Chairman CHABOT. All right. We will begin with Mr. Secor. Mr. Secor, you are recognized for 5 minutes.

STATEMENTS OF TOM SECOR, PRESIDENT DURABLE CORPORATION; KEITH HALL, PRESIDENT AND CHIEF EXECUTIVE OFFICER THE NATIONAL ASSOCIATION FOR THE SELF-EMPLOYED; KEVIN KUHLMAN, DIRECTOR OF GOVERNMENT RELATIONS NATIONAL FEDERATION OF INDEPENDENT BUSINESS; DANIA PALANKER, ASSISTANT RESEARCH PROFESSOR CENTER ON HEALTH INSURANCE REFORMS GEORGETOWN UNIVERSITY

STATEMENT OF TOM SECOR

Mr. SECOR. Good morning, Chairman Chabot, Ranking Member Velázquez, and members of the House Small Business Committee. I want to thank you for the opportunity to address this body in reference to the current conditions that small businesses are facing since the passage of the Patient Protection and Affordable Care Act, ACA, and offer some solutions as Congress works to improve the law.

My name is Thomas E. Secor, and I am the president of Durable Corporation and a board member of the National Small Business Association, NSBA.

Fewer and fewer small businesses, especially those with less than 50 employees, offer health insurance as an employee benefit. This is not because they do not want to; it is because they simply cannot afford to offer a plan. At Durable, I had to make the difficult decision, in 2014, to no longer offer health insurance due to the increased cost and complexity of having to move to an ACA-approved plan. Then the Obama administration ruled we can continue our non-ACA approved plan due to the failure of a small business market developing. And each year since, we wait to hear if we can continue. To date, we still offer health insurance. Even with a non-ACA approved plan, our average total cost per employee has risen 51.7 percent between 2013 and 2017.

According to NSBA's Health Care Survey, offering health insurance as an employee benefit is something the majority of small businesses think is very important in terms of recruiting and retaining good employees. Yet, with the huge healthcare cost increases and the continual struggle to navigate significant confusion and complexity within ACA, fewer firms report that they offer some kind of health-related benefit. NSBA's survey found that when it comes to ACA, the average time it takes for small businesses to stay abreast of all the changes to health care is 13 hours per month. That is nearly 4 workweeks every year, and 90 percent reported premium increases at their most recent renewal, with 1 in 5 firms reporting increases exceeding 20 percent, while 69 percent reported an annual increase exceeding 20 percent over the last 5 years.

It is no wonder one in four small firms are purposely not growing as a result of the ACA. Complexity and uncertainty give rise to a system that inappropriately overshadows and often stifles the ability of business owners and individuals to succeed, innovate, and pursue entrepreneurship. The NSBA survey shows that one-third of small businesses held off on hiring a new employee, and more than half say they held off on salary increases for employees as a direct result of high insurance costs. This continuous uncertainty

and never-ending cost increases are not sustainable. Our employees who get up and go to work every day deserve better, deserve more certainty, deserve more consideration, deserve to have access to affordable health insurance and high-quality healthcare services.

NSBA is focused on reform efforts to fix some of the issues most burdensome to small businesses, understanding that the ACA as passed was primarily about expanding access, not reducing cost. Efforts should be made to prioritize healthcare cost containment and reduce the rate of medical utilization while improving healthcare quality and empowering consumers. Incumbent on any requirement to purchase health insurance is a need to ensure that appropriate and affordable coverage is available for all. With a goal of universal participation, there is a need to strike a balance between the population served, the premiums charged, and the underwriting risk. Wasteful, inefficient, and improper health care is contributing astronomical sums to the overall cost of U.S. health care and will likely continue absent engaging consumers in their own health care.

The Institute of Medicine estimates that $105 billion of annual waste in healthcare spending can be attributed to the lack of competition and excessive price variation. A lack of public information on the price of healthcare services contributes to this waste by denying employers, purchasers, and consumers the information they need to make smart choices.

The small business community needs substantial relief from the ACA. This level of relief can only be achieved through a broad reform of the current healthcare system with a goal of reducing cost and added expenses, focusing on individual responsibility and empowerment, creating the right market-based incentives and persistent emphasis on improving quality while driving out unnecessary, wasteful, and harmful care.

Again, thank you for what I consider a true honor to be able to address this Committee of elected officials in our Nation's capital, and I look forward to answering any of your questions.

Chairman CHABOT. Thank you very much.

Mr. Hall, you are recognized for 5 minutes.

STATEMENT OF KEITH HALL

Mr. HALL. Thank you, Mr. Chairman, Ranking Member Velázquez, members of the Committee. Thanks so much for having this hearing on this obviously very important topic.

My name is Keith Hall. I work with the National Association for the Self-Employed. We have about 150,000 members in all 50 States. We represent over 27 million self-employed business owners. Virtually all of those businesses have very few employees. About half of them work out of their home, and their average gross family income is about $90,000. It is estimated by the year 2020, that number is going to be 50 million self-employed. Now, to put that in perspective, the IRS processes about 150 million tax returns a year. So by 2020, one out of three tax returns will have a self-employed business attached to that tax return. My point, of course, is this is a very important part of our economy, of our culture, and of our healthcare decisions. So thanks again for holding this hearing. I think this is very, very important.

The ACA concentrated on three areas: quality, access, and affordability. In a lot of ways, the ACA got some stuff right, especially as it relates to quality and access. There are over 11 million Americans who are covered today that would not be covered without the ACA. Those with preexisting conditions and those with incomes below the thresholds now have coverage that they would not have had before. Those people can now go to the doctor with pride and with dignity. I like that. I think we made a difference.

I think we, as citizens, as Americans, are called to help people that need help. And I like that. I do believe whatever solution we find needs to include some level of subsidies for those that need help, and an exclusion from screening against preexisting conditions. I think that is very important.

I think quality and access have been helped, but I think it has been a struggle. The number of actual health plans has dramatically decreased, and the number of insurance companies, as the chairman mentioned, has dramatically decreased. Some have given up. Many places only have one ACA option. I think considering opening up interstate ability to expand some plans may give more options, and I think we should certainly look at that. I think the discussion should also include access to healthcare, not just access to health insurance.

Now, I would like to spend most of my time talking about affordability. I think that is where we really struggled. I think it is important to note that the self-employed business owner considers this a business expense. The self-employed is unique in that we really have to pay twice. We have to pay the cost, but then, also, if we are sick or out of work, our business suffers, also.

Now, as I mentioned before, the average family income is about $90,000 for this group. Now, that is right at the threshold where they do not get subsidies, and so that makes it extra difficult. As an example, a family in Cheyenne, Wyoming, will pay about $14,000 a year for a Silver Plan. That is about 16 percent of their income. We have got to concentrate on lowering that cost. Some options could be incentives for younger and healthier people, give them incentives. Maybe reducing some of the mandated benefits that exist now, and then maybe some of the expansion of ability to go interstate could help as well. This is the toughest part of the discussion because how do we pay for all that we want?

And I know at some point the cost is going to be the cost. But this is the most important thing I want to say today. Even after we do all that we can do to reduce cost, the self-employed business owner will still pay 15.3 percent more for their health insurance just because of the tax code. That same family in Cheyenne, Wyoming, is going to pay $2,100 more for their health coverage just because they are a self-employed business owner. That just does not make sense to me. The reason is their health insurance is not deductible as a business expense. And this is easy to fix. Congress can just move the deduction off of page 1 of their tax return over to the Schedule C. That saves 15 percent right here, right now. Easy to do.

Now, I wish I had a great solution. I wish I could stand in front of this Committee, lay out a specific plan that covers everybody, everywhere, for everything, and then show you an easy way that we

can pay for it. But, I am not that smart. I do, however, believe strongly in the American small business. My only formal request is that those self-employed business owners have exactly the same rules as big businesses do. If big businesses get a deduction for their health insurance cost, small businesses should as well. If big businesses can use flexible spending accounts, health reimbursement arrangements, then small businesses should as well. If big businesses get a lower net tax on their net income, small business owners should have that lower tax rate benefit as well.

I know this is really sappy, but I believe in small business. I believe in what the American spirit can do. Small business owners are creative, intuitive problem solvers. They will figure this out. Tell us the rules, but then let the rules be the same for everyone.

And thank you so much for the opportunity to be here. I really appreciate what you guys do for us every day. So thank you.

Chairman CHABOT. Thank you very much.

Mr. Kuhlman, you are recognized for 5 minutes.

STATEMENT OF KEVIN KUHLMAN

Mr. KUHLMAN. Thank you, Chairman Chabot, Ranking Member Velázquez, thank you, and members of the Committee. Thank you for the opportunity to testify at this important and timely hearing. My name is Kevin Kuhlman. I am the director of Government Relations at the National Federation of Independent Business.

The Affordable Care Act has led to higher healthcare costs, increased compliance burdens, and decreased flexibility for small businesses. These consequences resulted in a significant 25 percent reduction in the offer rate for small businesses between 2010 and 2015. For the first time, fewer than 30 percent of small businesses offered health insurance to their employees in 2015. As Congress considers a partial repeal of the ACA through reconciliation and a repair of the health insurance markets, please prioritize affordability, flexibility, and predictability for small businesses. Health reform that works for small business will work for the rest of the country.

The cost problem predates the ACA, but the law exacerbated this problem. The ACA was the most significant Federal overhaul of the individual and small business health insurance markets ever. Forty-one percent of small business owners purchase health insurance in the individual markets and 33 percent purchase insurance through their business. The ACA added new insurance requirements and taxes to these markets that drove up plan costs. These costs are passed along to small business owners and employees in the form of higher health insurance premiums and out-of-pocket costs.

For small business owners, increased costs are unlikely to be offset by tax credits. Only 6 percent of small employers received an advanced premium tax credit in the individual exchange marketplace. Many of the 9 million unsubsidized individuals in the broader individual market are small business owners. Few small businesses qualified for the Small Business Health Insurance Tax Credit, and the credit expired last year for the few businesses that did initially qualify. This population needs the most cost relief.

The ACA implementation by the Departments of Health and Human Services, Labor, and Treasury increased compliance and paperwork burdens for small businesses. The biggest current compliance headache is the employer mandate. Businesses must track the cost of coverage for each employee monthly, provide current and former employees with a Form 1095, and provide the IRS with a Form 1094. Whether outsourced to a payroll company or handled within the business, these increased compliance requirements again result in higher costs for small businesses.

IRS regulations limited flexible arrangements that were a common market practice for small businesses. Fewer and fewer small businesses can afford the high cost of group health insurance. Instead, to assist employees with healthcare costs, many small businesses directly paid for or reimbursed employees' individual market health plans and qualified medical expenses. NFIB estimated 16 percent of businesses reimbursed employees for insurance they purchased on their own in the year 2015. The IRS prohibited these arrangements and threatened $100 per employee per day penalties. Penalties of this magnitude would be catastrophic for small businesses, forcing many to close their doors.

Repeal will eliminate taxes and mandate penalties, but more action must be taken to lower costs and increase coverage options for small business. Congress cannot only pass repeal legislation without considering replacement legislation that focuses on affordability, flexibility, and predictability for small businesses.

On affordability, reconciliation rules prevent reconsidering the increased health insurance requirements in repeal legislation. Adjusting tax and insurance rules with a laser-like focus on affordability will organically increase coverage for the small business population.

On flexibility, NFIB continues to advocate for innovative offering arrangements. NFIB supported the Small Business Healthcare Relief Act that allowed businesses to contribute to their employees' individual market plans with tax preferred dollars. The ACA eliminated these innovated offering arrangements, as I mentioned earlier, but NFIB, with some other small business organizations, helped lead the effort to restore them on a limited basis in the 21st Century Cures Act, and we appreciate Congress for doing so. Expanding these arrangements will allow small businesses to tailor benefits that fit their employees' needs and could help stabilize the individual insurance market.

On predictability, during the repeal-and-repair process, Congress and the administration must avoid disrupting the fragile individual and small business health insurance markets. Congress or the administration should allow individuals and businesses to keep their transitional plans by relaxing grandfather plan regulations and extending the Obama administration's grandmother plan extension policy. These policies could also enroll new individuals and business customers to ensure true choice.

Small business was an afterthought during ACA consideration and implementation. NFIB remains committed to advocating for solutions that promote affordability, increased flexibility, and ensure predictability for small businesses.

Thank you for allowing me to testify today. I look forward to any questions.

Chairman CHABOT. Thank you very much.

Ms. Palanker, you are recognized for 5 minutes.

STATEMENT OF DANIA PALANKER

Ms. PALANKER. Chairman Chabot, Ranking Member Velázquez, and members of this Committee, thank you for the opportunity to participate in today's hearing about the healthcare marketplace for small businesses.

My name is Dania Palanker. I am an assistant research professor at Georgetown University Center on Health Insurance Reforms. However, the views I share today are my own and do not represent those of the university, its faculty, or staff.

Small businesses have long struggled to provide health insurance to their workers facing high and often volatile premiums. These struggles have existed for decades. One of the goals of the Patient Protection and Affordable Care Act was to lessen these burdens.

In 2012, before the ACA was fully implemented, only half of businesses with 3 to 9 workers, and less than three-quarters of businesses with 10 to 24 workers offered health insurance. The small group market provided coverage to only one in five small business owners with less than 25 workers. And workers of small businesses who received insurance historically had less generous coverage than those working for large employers, with higher deductibles and lower contributions for their dependents.

Health plans for businesses with less than 15 employees were not required to cover maternity services in 35 States and the District of Columbia, leaving some workers and their family members or their spouses without coverage for tens of thousands of dollars for the costs of childbirth and prenatal care. A Cesarean delivery was actually about—the average cost was about the same cost of median income.

Health insurers in 23 States were not required to include mental health coverage in small group plans, and there was no Federal requirement to cover substance use disorder treatments, such as opioid addiction, and small businesses could purchase a plan without prescription drug coverage.

Today's small businesses have more choices. They can offer their workers the same plan if the issuer made the decision not to terminate the plan. Small businesses can choose to purchase in the traditional small business market or through the shop marketplace. And they can help workers purchase coverage through the individual market, including providing premium support as we have heard because of the recent passage of the 21st Century Cures Act. There is no penalty for employers with fewer than 50 employees that do not provide health insurance. And finally, small business owners and individuals who are self-employed can enroll themselves and their families through the individual market.

Prior to the ACA, the individual market was not an option for many small business owners, the self-employed, and their workers. Applicants were denied coverage because of preexisting conditions, including a history of a Cesarean section, a cancer diagnosis, even acne. And those who did receive coverage often would have the cov-

erage for preexisting conditions excluded. People experienced job lock where they would feel locked into their job because that was the only way they could access health care. And that also prevented people from starting their new business, preventing entrepreneurship.

And small business owners and entrepreneurs are getting coverage through the ACA. Almost 10 percent of small business owners purchased coverage through the individual health insurance marketplaces in 2014, and as marketplace enrollment has grown since then, we expect that more have been covered since then. In States that expanded Medicaid, there is a healthcare safety net for entrepreneurs if they start a business that is not profitable in the first few years.

The uninsured rate for small business workers has fallen by 10.8 percentage points in just the first year of the marketplaces in 2014. And this was due to people enrolling in individual insurance and Medicaid. And small businesses are also benefitting from an unprecedented slowdown in healthcare cost growth. So while premiums are growing, they're growing significantly slower than they were prior to the Affordable Care Act. For small employers with less than 50 employees, a national survey found that there was only an average 4 percent rate increase for single coverage and 4.2 percent for family coverage between 2010 and 2015, and the rate increase was actually only 1 percent between 2014 and 2015.

Before the Affordable Care Act, a small business could see a large double-digit rate increase because only one or two workers had high medical costs, such as one employee having an HIV diagnosis or a premature baby being born that had to spend many days in the NICU. Small businesses with female workforces paid higher premiums. Some employers were charged more because of the industry and the occupation of their employees. For decades the small group market has actually failed small businesses and their workers, and the result was that many went without insurance. And the ACA has improved and is continuing to improve access to coverage. Thank you.

Chairman CHABOT. Thank you very much.

We will now ask questions, and I will yield myself 5 minutes to begin. And I will begin with you, Mr. Kuhlman, if I can.

Towards the end of your statement you made, I thought, a very strong comment. I will repeat it. You said that small business was an afterthought in consideration and implementation of Obamacare. Could you expand upon that? You know, why do you think that is the case and what is a better alternative, especially since you are here before the Small Business Committee?

Mr. KUHLMAN. Thank you for the question. During consideration, NFIB was active throughout the consideration and trying to be productive and helpful through the discussions with Chairman Baucus to House discussions, designing a health insurance tax credit. We provided a suggestion and we were told, no, we are going to do this one instead. And the one that ended up being created was just too limited on many factors, and that was clear from, I think, the results. Four million postcards were sent out advertising the credit, and I think we are under fewer than 200,000

business have been able to take advantage of it. Just too many limitations.

The second portion is the Small Business Exchange. Again, we tried to be productive during consideration, and even formulation through the regulations, and it just did not really offer anything different than what already existed. The exchange was eventually where you could claim the tax credit, but again, I do not think it was anything innovative or different enough to incentivize businesses to begin offering or to move toward that and shift from what they already do offer if they were on the outside market.

Chairman CHABOT. Thank you very much. Thank you.

Mr. Secor, I will move to you at this point. As a small business owner who has continued to try to offer the best insurance options possible to your employees, has Obamacare made it easier or harder to continue to offer insurance to your employees? What changes would you specifically like us to make that would make it easier for you as a person in small business trying really to do the best for your employees as far as their health care goes?

Mr. SECOR. The ACA, if it would have been fully implemented, would have put us out of the insurance market. It was just totally unaffordable. The rates we got we could not pay. And the complexity, I believe it was over 10,000 pages added to the Federal Register. The amount of time it takes us to—you know, when you look at 4 weeks a year, workweeks that you are spending trying to figure out things, we do not have, you know, corporate attorneys and staffs of people to sort through this stuff. We tend to find out about stuff like that when a regulator is knocking on the door and it is not a pleasant situation. So, you know, the complexity is huge in this.

I think the intent, you know, it is fine, but the intent was too focused on expanding coverage. You have to address cost. And you can talk about any additional coverage you want, and there is a lot of good quality reasons to add this coverage or that or whatever, but if you add a coverage and now it is not affordable and a company has to drop their insurance, well, this person got coverage and these 10 people lost everything they had. And that is where we need some—we sort of think the idea of a bare-bones medical plan, if you will, or medical insurance like we used to have years ago, coupled with an HAS, maybe would allow the individual to sort of spend their money where they need to spend it on a personal basis and yet still have that umbrella coverage that if they or their children break an arm or were in a car accident or did get some disease, they would have a coverage. But that basic level of coverage, the cost has to be affordable.

Chairman CHABOT. Thank you.

I have only got about a minute left. Mr. Hall, I am going to ask you to work miracles here and see if you cannot answer two questions for me. One is, you voiced your support for allowing insurance companies to sell their insurance across state lines, I assume to increase the competition to bring costs down. So if you could talk about that and why you think that is a good thing.

Secondly, under the 21st Century Cures Act that we passed last year, it lifted some of the restrictions on the use of health reim-

bursement accounts, but there are still some restrictions that remain, how would you like to see those changed?

Mr. HALL. Okay. As far as opening competition, I do think that is a good thing. I am certainly not an economist. I am not smart enough to understand all the implications of that, but I do recognize that when you are in Lincoln, Nebraska, and you only have one option, it is difficult for them to choose what is best for you and your family.

Back to the overall cost. If increasing competition by allowing carriers to go into other States would provide us an opportunity to increase choice and reduce cost, then that has got to be a good thing. If that does not work, then it seems to be pointless, but it still goes back, as you probably heard through a bunch of different people, it still comes down to the cost.

The HRA is one of my personal pet peeves. The smallest businesses struggle with the cost of a group plan. It is very difficult for a business who has three employees to get a Blue Cross Blue Shield, ACA-compliant, major medical plan and stay in business. But if they can provide $1,000, $2,000, $3,000, whatever their budget will allow to help their employees with the cost, then we should promote them being able to do that. And an HRA, a health reimbursement arrangement, is exactly how they do that.

So I would prefer removing all restrictions, and if there is a qualified medical expense, as defined in the Internal Revenue Code, that an employee incurs, the business ought to be able to reimburse that with a tax benefitted status. It just seems like an easy decision to me.

Chairman CHABOT. Okay. My time is expired.

The gentlelady is recognized for 5 minutes. The ranking member.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Ms. Palanker, is it not true that before the ACA premiums in the small business market were skyrocketing and employers were dropping their coverage?

Ms. PALANKER. Yes, that is true. The increase in employer premiums, including for small businesses, did not start with the passage of the Affordable Care Act. It had been happening for many, many years, which was one of the reasons that the Affordable Care Act was needed. And there actually was a dramatic cut in small employers offering health insurance before the Affordable Care Act passed. And I will also add that some of the employees who used to get coverage through a small business that are not anymore are now able to get coverage through the individual market.

Ms. VELÁZQUEZ. Thank you.

Mr. Secor, like nearly 96 percent of all American firms, you have fewer than 50 employees, correct?

Mr. SECOR. Yes.

Ms. VELÁZQUEZ. So automatically, you are exempted from the employer mandate?

Mr. SECOR. That is correct.

Ms. VELÁZQUEZ. Correct. So given that you are not subject to the mandate, what aspects of the Affordable Care Act specifically have been a regulatory burden to you?

Mr. SECOR. Well, if we are going to offer insurance, then you end up offering through the ACA. And once you get in, you have

all the rules and regulations still apply. The fact that we have fewer than 50 employers, you are correct, we do not have to offer insurance.

Ms. VELÁZQUEZ. Correct.

Mr. SECOR. But morally, those employees——

Ms. VELÁZQUEZ. No, if you offer it through the ACA, you are going to get more options than you got before.

Mr. SECOR. Actually, we got less. We had one carrier that was willing to offer insurance is what our insurance agent told us, that there was one. Now, here again, I am in a rural section in Ohio, and I think that is part of the difficulties, and that is where you see some of the things have occurred is that, you know, in the State of Ohio, we have 88 counties and we have 3 what I will call major cities for us: Cleveland, Columbus, Cincinnati. And we have a handful of other ones, but most of Ohio is rural and so we do not get the kind of coverage. If you are in Cleveland, Columbus, Cincinnati, you had options. We did not. And it was explained to me that is why they allowed us to continue to offer that insurance is because we did not get the option.

Ms. VELÁZQUEZ. So, Ms. Palanker, based on your research and data, does it reflect that in rural America you get less coverage than prior to the enactment of the ACA?

Ms. PALANKER. Health insurance varies and the issuers vary tremendously across the country, and it has always been true that in small rural areas there have been less options for health coverage than large areas, and there have been certain States that have more competition than others. But I would add that we do have now the added—I think the individual market option for small businesses is very important because for those that cannot afford the coverage or do not have those options it is something there now for their workers.

Ms. VELÁZQUEZ. Thank you.

Mr. Kuhlman, the ACA instituted a number of reforms that serve to create a more predictable small business market. One such reform was prohibiting different prices for coverage based on health status or gender of employees. Do you think we should go back to a scenario where some small businesses, such as those who hire predominantly women, are charged higher premiums?

Mr. KUHLMAN. I do not believe that. I think you are referring to underwriting. And there were winners and losers in that older system and there are likely winners and losers in this new system. But I do not think we need to go back to a heavily underwritten thing. But I would encourage more flexibility.

Ms. VELÁZQUEZ. Okay. Ms. Palanker, Republicans have not agreed upon a concrete proposal to replace the ACA. However, most offered plans have a few common elements, including expanding health savings accounts, establishing new tax credits for health coverage, and restructuring Medicaid through the use of block grants. Could you please discuss the merits of these proposals and likely impact on consumers, particularly those from low- and middle-income families?

Ms. PALANKER. These proposals are good if you are wealthy and healthy, and if you have health problems, if you are moderate or low income, they really provide a lot of struggles. The health

savings accounts work for people who have the disposable income to put into the health savings account and for the people who do not end up using that entire account for their health care. If not, it is really just shifting from the insurance paying for the cost to people paying out of pocket.

For Medicaid, we have a longstanding process of Medicaid being a State and Federal partnership, and if it is significantly restructured into a block grant, you are actually taking a situation where when we have economic downturn, the risk of that downturn is now put on the States who are forced to, unfortunately, cut benefits or cut employees, people off of Medicaid at a time when it is most important to have.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. Thank you for your indulgence.

Chairman CHABOT. Okay. The gentlelady's time has expired.

The gentleman from Iowa, Mr. King, is recognized for 5 minutes.

Mr. KING. Thank you, Mr. Chairman. I want to thank the witnesses for your testimony today.

And I direct my first question to Mr. Hall. I am using a little bit of thinking about how businesses start and grow into Fortune 500 companies and how often it is an entrepreneurial individual in a garage or a shop somewhere that has an idea. Or I am thinking about the local carpenter who went to work for the construction company and decided to go out on his own, take his tools. Now, the day that he goes out there and starts to pound his own nails in his own little self-employed little company with no employees, is his health insurance deductible on that day?

Mr. HALL. Well, interesting question. And thanks for the question. But on that day when he becomes self-employed, if he has exactly the same cost, exactly the same policy, nothing changes other than who cuts a check to him for his services, he pays 15.3 percent more for his health insurance beginning that day simply because the insurance is not deductible.

Mr. KING. It is whether or not he has employees?

Mr. HALL. It is whether or not he, himself, is an employee. Now, interesting, because as a small business owner, if he hires employees, he has got three people and he has the ability to pay for their insurance, he does get a full deduction for his employees' insurance. But his insurance, for him and his family, 15.3 percent more just because he is self-employed.

Mr. KING. But if he is running a sole proprietorship and he is not drawing his salary out of that and not paying himself, but he is paying the expenses out of the business itself without any corporation, just a sole proprietorship, then can he then deduct his health insurance premiums?

Mr. HALL. His premiums are deductible, but only on the face of his 1040, on page 1, not as a business expense.

Mr. KING. Standard deduction?

Mr. HALL. Not standard. It is on page 1, self-employed, line 29, instead of being a business expense. So he pays taxes for FICA, Medicare, self-employment tax, basically 15.3 percent. If he worked for the old carpentry company as an employee, even if he paid his own health premiums, most likely the company had a cafeteria plan, a 125 plan that he paid for all of those expenses pretax. So

bottom line, at the end of the day, my example, the family in, Wyoming, at the end of the day, that family has $2,100 less in cash. No other differences.

Mr. KING. That is what you describe in your testimony, the $2,100 difference. And so here is some of the narratives that come to me. We have a lot of farming families that surround me, thankfully, and if they do not have an employee, they tell me they are allowed to deduct the health insurance premiums as an expense if they are a partnership or a husband-and-wife team. Would you concur with that?

Mr. HALL. Well, again, and this is a critical point, I appreciate you bringing this up. I will pay you later for planting this question. But the important point is most people do not understand the difference in how the premiums are, indeed, deductible. So point blank answer to your question, yes, those premiums are deductible. But not in the same way as big businesses. So, yes, they are deductible, but not in the right place on the return.

Mr. KING. Okay.

Mr. HALL. So that farmer still is paying 15.3 percent more for their health insurance.

Mr. KING. And then if he hires a part-time employee and pays for the health insurance for that part-time employee, does that change the deductibility of the farmer and his wife?

Mr. HALL. Negative. Still the same.

Mr. KING. Okay.

Mr. HALL. And if you do not mind, if I could expand, the thing that really hurts my heart is that carpenter or that individual that did not take that plunge into their American dream for being self-employed, but they became self-employed kind of by accident: the company laid them off, the company decided for whatever reason we no longer have employees, we are only going to deal with independent contractors, you are going to do the same thing for us you did before, yet you do not have vacation, you do not have paid time off, and you do not have health insurance. That person now still pays 15.3 percent and they did not even make the choice. They are like a necessity entrepreneur. Those are the ones that really reach out and touch me.

Mr. KING. Let me pose another thing that I heard here, and that is all very interesting and I am awfully glad you are here as a witness to clarify these delicate points that they are. When I am listening to the discussion about selling insurance across State lines and the discussion about what should be mandated in health insurance premiums, does anyone on the panel have the ability to describe how we can have a successful competition established between the 50 States if we repeal the components of McCarran-Ferguson that allow for States to write monopolistic legislation? Can we maintain Federal mandates and still allow for competition between State lines or does that nullify? And I would ask Mr. Hall while I have got you here.

Mr. HALL. My first thought is that probably that would take an act of Congress, so that is up to you guys. I do believe that is a possibility. I think as we go through the concept of mandates, of shared responsibility penalties, people who chose not to have an ACA-compliant plan, we encourage them to get an ACA plan with

a negative encouragement. We said if you do not do it, we are going to penalize you. I like both. I like the negative penalty, but I also like encouraging people. So if part of this nationwide group could include incentives for younger people, healthier people to get into the pool, I am not an actuary, but that helps the math——

Mr. KING. Thank you.

Mr. HALL. —if more healthy——

Mr. KING. I would ask unanimous consent for an additional minute.

Chairman CHABOT. Seeing no objection, the gentleman is recognized for an additional minute.

Mr. KING. Thank you, Mr. Chairman. I will try to go fast.

I would like to turn to Mr. Secor and ask you, as I see this, if we have mandates that are put on at a Federal level and we are trying to establish competition between the States. And if it is for the opioid addiction, as the gentlelady mentioned, or OB care or preexisting conditions even or whatever it might be, can you see how we would end up with competition between the States if we loaded them up with mandates that all States had to comply with?

Mr. SECOR. I guess our focus from the NSBA side is still on cost. And the more mandates you put on, the higher the cost of the product is going to be. So whether there is competition or not, you are still going to be driving the cost of that basic coverage up and then it does not become affordable. How that works in that market, to be quite honest, I really do not know.

Mr. KING. That is still a clear answer, and so I appreciate it. And I thank you, Mr. Chairman. I yield back. Thanks.

Chairman CHABOT. The gentleman yields back.

The gentleman from Pennsylvania, Mr. Evans, is recognized for 5 minutes.

Mr. EVANS. Thank you, Mr. Chairman.

Ms. Palanker, the question I would like to ask you is what can you share your thoughts on the small business tax credit? And what are your thoughts on how to make the incentives more appealing to small employers?

Ms. PALANKER. For the small business tax credits that were eligible and used the tax credit, it was very helpful to make coverage more affordable. I believe the tax credit could be expanded for higher—you know, for employers with higher wages. It did sort of go out very quickly once an employer started having more employees. So it could be really a more robust credit that could also go longer and is an option to look at to help make coverage more affordable for small businesses.

Mr. EVANS. Do you have any thoughts or suggestions in terms of people taking advantage of it, sort of incentives?

Ms. PALANKER. Well, I think for the small business tax credit, although there were postcards sent, there still was research shown that people did not know it was available. One piece is people do need to know that the credit is available. In addition, when it rolled out, it rolled out at the time that SHOP was very new. You had to buy the coverage through SHOP. So I would say to sort of continue the credit and get more people to enroll, it is really trying to both make sure that the employers know it is there and that it

is designed to both work with the employers and work with the insurance options available.

Mr. EVANS. Thank you.

Mr. Kuhlman, you stated that during the repeal-and-repair process, Congress and the administration must avoid disrupting the individual and small business health insurance market. In your view, what is the leading components that must be implemented by a replacement proposal?

Mr. KUHLMAN. I am a broken record, so I just say focus on affordability, flexibility, and predictability. You know, I do not have a plan to present to you today, but we remain very interested in working together as that plan proceeds.

Ms. VELAZQUEZ. Will the gentleman yield?

Mr. EVANS. Yes.

Ms. VELAZQUEZ. And do you think the Republicans have a plan?

Mr. KUHLMAN. I think there are many plans out there. I have read the A Better Way plan. A lot of things that we agree with in that plan.

Ms. VELÁZQUEZ. What are those things that you agreed on with those plans?

Mr. KUHLMAN. Well, in that there is a little bit more affordability, flexibility, and predictability. There is an expansion of the Small Business Health Care Relief Act.

Ms. VELAZQUEZ. Well, can you help me identify what piece of legislation contains those elements?

Mr. KUHLMAN. Well, I mentioned the Small Business Health Care Relief Act that we supported last Congress that was partially put in the 21st Century Cures Act.

Ms. VELAZQUEZ. Okay. That was last Congress. But I am talking about today. People are talking about repeal, though I hear now they might just—thank you.

Mr. KUHLMAN. I would love to be helpful.

Ms. VELAZQUEZ. Yeah. Well——

Mr. EVANS. Let me follow up. Your view is that Congress should equalize the tax treatment between the group market and the individual market. Can you share your thoughts on the small business tax credit?

Mr. KUHLMAN. Again, I just think it was too limited. When it was designed, I feel like it said, here, we have a box. Now, let's fit this into the box. And it was driven by a cost target. So it was estimated $40 billion worth of tax relief, and that sounds pretty good. I think more recently that estimate has been revised downward three or four times to less than $10 billion now. And for folks who did take advantage of it, it is over. I had one business from Pennsylvania who said, you know, as the ACA started, I moved to the SHOP, small business, because I was able to take the tax credit. Now it is over. Comparing plans inside SHOP to outside SHOP, the outside SHOP ones were better. So I was in the SHOP with the tax credit and then that credit disappeared, so now I am out. So I would be happy to work with you on that or to simplify or broaden any tax credit.

Mr. EVANS. Thank you, Mr. Chairman.

Chairman CHABOT. The gentleman yields back. The gentleman's time is expired.

The gentleman from Mississippi, Mr. Kelly, who is the Chairman of the Subcommittee on Investigations, Oversight, and Regulations, is recognized for 5 minutes.

Mr. KELLY. Thank you, Mr. Chairman. And thank all you witnesses for being here.

Mr. Secor, you know, us southerners do not do pronunciations very well, but in your written testimony you talk a little bit about how your workforce has gotten younger in recent years and how that is affecting your health insurance rates. In your experience, what are the reasons that young people are declining coverage? And then as an ancillary to that, it appears to me if younger people are entering the workforce, that insurance rates should go down because they have less health costs, but, in fact, what is happening is that it is less because they are declining. So if you could comment on that, Mr. Secor.

Mr. SECOR. Well, I think one of the things that happened in ACA is they narrowed the bands. There was five bands of coverage and they went down to three. And I think possibly one of the thoughts was, okay, we are going to start, you know, here and work down and at the bottom, work up, so to speak. Well, they really did not do that. They started at the top and worked down. So the health—because from the insurance perspective, okay, here is our major risk. We are going to try to price this accordingly. And what it did is it made it just extremely unaffordable for those younger employees. I mean, and that is what—as we have seen retirees and these young employees come in, I mean, I talk to them and they just say, you know, we really cannot—it is not worth the money. And they look at themselves sometimes as indestructible being young people. And I guess I was probably that way a long time ago, too. But nonetheless, you know, we have to broaden that market. And increasing the bands would be, I think, a possibility to at least provide different rates.

Mr. KELLY. And also for you, you and I are both from rural areas. And can you talk about the importance of access to telemedicine and urgent care clinics? And do you think your employees consider these alternatives when deciding on which health insurance plans to use?

Mr. SECOR. You know, I am amazed at how smart our employees are. I mean, I get to go to work every day with 36 fantastic individuals. But when it comes to health care, what is interesting is buying health insurance, they are not prepared for. In their lives, they have never purchased this product. And the idea that they can just go out and buy this product, I selected annually with a health insurance specialist. You know, without that person at my side, I have the same problem. But if you have things in the plan that give them incentives, such as things like you mentioned where you have a health unit or whatever, I know specifically as our deductibles went up, MRIs—I had to have an MRI years ago and I was talking to some people on the shop floor. They said, no, no, no, do not go to this hospital. Go over here to this clinic. The hospital was $3,000. The clinic was $1,500. They knew this. They actually knew which store to go to get which kind of prescription drug

because certain stores had a lower price than others. So there are parts of this they are very able and willing to embrace.

Once again, the complexity of the overall insurance packet is extremely difficult, and especially, you know, when I look at employees that have been with us for 30 years and they have never bought this product in their lives, ever, and now all of a sudden it is like, okay, go buy health insurance, that is a tough one.

Mr. KELLY. It is.

And Mr. Hall, I am going to try to do this one real quickly. I think a lot of times we talk about the cost of insurance plans. However, I am from a poor State, so we do not have—if you make $90,000 in Mississippi, you are a rich person. And I mean that. You are in the upper echelon. So we talk about health care and the cost of the premiums, but we rarely talk about the cost of the deductibles. And even I, as a private employer, my deductibles went from being $500 a year to now it is not uncommon to have $5,000 or $10,000 deductibles. Well, if you add that to your premiums, the net effect is you are paying a tax and you are getting zero coverage until you expend like $15,000 or $20,000 a year. Do you think we are taking into account the high deductible as well as the cost of the plan?

Mr. HALL. Well, I think we are. I think we are probably not taking it into account enough because it is a factor. I was actually doing a seminar in Eugene, Oregon, and was talking to a lady who is a hairdresser. She makes $40,000. Her husband is disabled, works part-time, makes some money, but they make $70,000 combined. They do not get any subsidies, but they pay $12,000 a year for an ACA plan and their deductible is $6,000. So the math does not work that they have to pay $20,000 or $18,000 before it kicks in because there is an out-of-pocket maximum, also, but the overall cost, that out-of-pocket is material. It is a material factor.

And if I can go back to the previous question, you know, those kids that are over 26—and I am an authority on this because I have three kids that are in this age range—but they are at this point where there is like an age line and you can decide which side of the age line you are on. But if you get an illness, if one of my daughters, they feel like something is wrong, the very first thing they do is they go to Google and they research it and they find out. They are knowledgeable. They know what is going on. The telemedicine idea, expanding options, that is what they do. My mom, same situation. She felt something was bad. She made an appointment with her doctor. And I think that is a material difference with the young people and incenting them to be part of this pool is giving them different options, maximizing use of technology. All of those things can be very creative solutions to help get the young people into the pool.

Mr. KELLY. Thank you, Mr. Chairman. My time is expired.

Chairman CHABOT. The gentleman's time is expired.

The gentleman from Florida, Mr. Lawson, is recognized for 5 minutes.

Mr. LAWSON. Thank you very much, Mr. Chairman. And anyone can respond to this.

I have been in the insurance business for over 36 years and have done quite a bit of health insurance group coverage for employees

and so forth. The problem that I see here is one that we are having to deal with, there are fixes for the Affordable Care Act, but it does not seem to be that anyone really wants to work and take care of the fixes it is so politicized, until one group says we just have to do the repeal and we are going to come up with something. And then you have the people on my side who are pretty much saying that no one has asked to get us involved and to make these fixes. And when during the course of the campaign, when I was campaigning, every rural community and every place I went they say take this message up to Congress. We want them to fix it, you know. And so, but how do you get there?

You all have recommendations. We have an educator here, Ms. Palanker, and we are looking to get some recommendations, you know, so people can sit down and say the most important thing is health care regardless of who takes the credit. We are not worrying so much about who is going to have all the credit, but for people to have a pathway to get health care. And that is the thing that is kind of frustrating to be here for 30 days and to hear all the rhetoric coming from it.

Mr. HALL. Well, I appreciate those comments, and I guess I do not want to say anything that will get me uninvited from any other opportunity to visit for this group. But one of the things I do hear that seems to be uncomfortable is I hear, you know, one group of people say if we do this, costs are going to go up. Then I hear another group of people say if we do this—if we do not do this, costs are going to go up. And it seems like the one consensus is that costs are going to go up.

And back to what we have heard so much today is the affordability of the solution we choose is paramount. We have got to find a way, in my opinion, to expand the pool of covered individuals. Everyone having access to coverage. Everyone having access to health care I think is what you just said. It is difficult for me to see anyone who would stand up and say I disagree with that, everyone having the opportunity to get the medical care they need. Still, how do we pay for that?

And my little platform, you know, my issue is, my number one goal is I would like for everyone to be on the same playing field. Now, I do not mean that every single person regardless of your income pays the same thing because obviously there should be different tiers, different subsidies, but the tax code should be treated the same for all businesses. Individuals should be able to have choice. And I think expanding those type of things is what we all should be talking about together. At least that would be my opinion.

Ms. PALANKER. And I would say I think the starting point should be on the improved health insurance market. We have corrected some of the problems that small businesses faced prior to 2010 and prior to 2014, because we do have a system now where more people are covered and it is a system that is more fair and that has ended some discrimination. And that is very important.

The other piece is when you consider cost, there are two sides of cost. There is cost of premiums and there is cost of health care. And if the way that you are bringing down cost of premiums is by limiting what the benefits are that are offered, somebody is still

paying for that. It is just instead of the employer and the employee paying that through premiums, the employee that happens to need that health service that is no longer covered is facing paying that entire cost of that health care. Or if they are not paying for it, they are going without needed health care, which can be extremely detrimental to their health.

Mr. SECOR. I would like to thank you for representing the people that sent you here, and I guess from the rural part of the country, the most important word in USA is the first one.

Chairman CHABOT. Is the gentleman finished? The gentleman yields back. Thank you very much.

The gentleman from Missouri, who is the Vice Chairman of this Committee, Blaine Luetkemeyer is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. And thank the panelists this morning. I appreciate always having some small business folks who sit in that chair where they have to make lots of tough decisions, and sometimes that means going without a paycheck yourself in order to make sure that your employees get paid and make sure at the end of the day the rest of your bills get paid. So I understand what you go through and I appreciate you being here today and telling some of your stories.

You know, it is interesting. I saw statistically 74 percent of the uninsured—or, excuse me, 74 percent of the people who are uninsured are employed, which tells me that it is a great way to deliver health insurance if we can find a way to allow the employers to be able to afford it. So it is not doable in every situation from the standpoint that businesses have to make enough money to be able to afford that. By the same token, if we can find a way to enable the employers to be able to afford it, it is a great way to deliver health care to the employees should they desire to take that.

So I want to talk to Mr. Kuhlman for a minute here. What would your suggestions be, sir, if in order to be able to enable the small business folks to be able to find a way to deliver health care?

Mr. KUHLMAN. I think a theme throughout everyone's testimony is just to help lower the barrier of entry. If the product is too expensive for new businesses or small businesses, to start offering—you get into the situation you are describing, or if it gets to those who are offering too expensive to continue to offer, again, you just add to that 74 percent.

So one of the specific ideas that a couple of us have mentioned is instead of having to—that group coverage be an option, but instead of being the only option, allow businesses to help their employees with their individual market plans. I thought the SHOP's opportunity would be to do something like that, be like the private exchanges that allow you to give a contribution. Your employees go, they have a menu of options, they pick whatever best fits their employees' needs. It did not go that direction, but I still think there is opportunity either through private exchanges or just in the existing individual market.

Mr. LUETKEMEYER. You know, there was an editorial in one of the local newspapers recently, individuals talking about small businesses, the entrepreneurs, and how difficult it was to manage the business. And they were talking about the new SBA director nominee and advising that individual on about five or six different

things that they needed to be able to overcome to be able to help the small businesses, the entrepreneurs, and one of them was Obamacare. One of them was the regulation that is so difficult to comply with, so costly to comply with.

And I can tell you when I go home and I talk to my small business people, regulation is always at the top of mine, and the number one regulation they talk about is health care because they want to provide it. It is an important thing they want to provide to their employees, yet it is a very costly benefit. And some of them will swear they are going to keep it in place so they can make sure that they keep good employees, but at the end of the day it is still about cost, whether you can actually afford something like this.

You know, as we go through all this, you know, the mountain of paperwork and mandates that have been caused by the healthcare law, would you guys, Mr. Secor and Mr. Hall, would you like to talk just a little bit about some of the mandates and some of the costs that you incur to be able to comply?

Mr. SECOR. I agree wholeheartedly with what your constituents are telling you in terms of the small business side in terms of regulatory compliance. And the big issue is the unknown. It would be simple if it came out and said, okay, here are the rules. Boom. Here is a sheet of paper. Follow these rules. You know, when it is 10,000 pages, it is tough. And it is tough trying, you know, trying to afford to get the expertise to tell you how it affects your specific business, because so much of that in there, most of it does not even apply to you, but you do not know which does and does not, and you need somebody to sort that out. And it is expensive.

Mr. LUETKEMEYER. So do you hire somebody to do this for you or do you have a person on staff that takes care of all this for you?

Mr. SECOR. Well, we are not in the ACA.

Mr. LUETKEMEYER. Okay.

Mr. SECOR. And so, you know, when we made the decision that because of cost and complexity, I sat down and looked at it with our healthcare professional and I actually—and it was not a fun decision—I met with all of our employees. We actually had a discussion about this. And we decided we just cannot do this and try to run a business. There are just too many moving parts.

Mr. LUETKEMEYER. Actually, my time is expired. I apologize to Mr. Hall, unless the chairman wants to allow him to just say a few words. Thank you.

Chairman CHABOT. Thank you. I missed what you said there at the end.

Mr. LUETKEMEYER. My time is expired. If Mr. Hall would like to just——

Chairman CHABOT. Mr. Hall, go ahead.

Mr. LUETKEMEYER. —like 10 or 15 seconds——

Mr. HALL. Thank you. I would love that.

I think the normal smallest business is not a member of—does not go through the ACA, are not required to, but the compliance then relates to a tax issue because now the small business owner, for themselves and their family, they are making this decision of do I pay the penalty? Do I get an ACA plan? What is it going to cost me? What is it going to cover? And one unique thing we talked about for years is in order to determine whether you are eligible

for a subsidy, you have got to guess what your income is for the next year.

Mr. LUETKEMEYER. Right.

Mr. HALL. Because it is based on current year, not last year. And this is a unique market. The self-employed person does not really know how much they are going to make. So they have this fear of estimating their income, they get a subsidy, they get to the end of the year, they had a great year, which is awesome for small business. Right? No, it is not awesome because now they have got to pay back their subsidy. And that just adds angst to them, maybe more than paperwork. But having to figure out the penalty, do I do it, what is my subsidy, what is my income in advance, crystal ball, just provides this uncertainty that is very uncomfortable to deal with.

Mr. LUETKEMEYER. Thank you.

Chairman CHABOT. The gentleman's time is expired.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Chairman CHABOT. The gentleman from Pennsylvania, Mr. Fitzpatrick, is recognized for 5 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

Mr. Hall, just taking an objective, right-down-the-middle view of the ACA, you had mentioned that there are some good things about it. Obviously, like many statutes, there are winners and there are losers, there are roughly, approximately 12 million people that are on the ACA exchange, about 85 percent, approximately, get subsidies; roughly another 12 million on the Medicaid expansion program. Pennsylvania, my home State, is one of those participating States. So clearly, they are the beneficiaries. People who kept their current health plan and saw premiums skyrocket or deductibles raise significantly or people that lost their health plan altogether would say that they are not fans of that statute. That is from the patient side. From the business side, are there any benefits that you have seen on the small business side that did not previously exist before the ACA?

Mr. HALL. I think whether it is individual side or small business side, my answer would be the same. You mentioned right down the middle. In the middle of myself, I have my head and I have my heart. And for the heart side of me, the fact that there are people who could not get health insurance before because they had a pre-existing condition, whether that is my wife or whether that is one of my employees, I think the ACA did well in that area. I think it fixed a problem that perhaps was a very difficult problem. That is my heart.

With my head, I still get stuck on I love doing that, that makes me feel right. I believe we, as Americans, are called to do that and I think that is very important. But at the same time, we still have to pay for it. And how does that work?

And the thing that worries me most is not the 85 percent of the people that you mentioned that have a subsidy, that someone is helping them. My heart goes out to that $90,000 average American that is just outside the range of a subsidy that is paying 16 percent of their gross family income for an ACA-compliant plan. And to me, that hurts both sides of my right down the middle. That hurts my

head from a cost standpoint, and it hurts my heart for that family. Those are the ones I am most worried about.

Mr. FITZPATRICK. Thank you.

Ms. Palanker, you had mentioned that some of the provisions of the Better Way plan were for the healthy and the wealthy. Does that only pertain to health savings accounts? Are there any proposals, any ideas that have been put forward on the Republican side that you think would benefit average Americans?

Ms. PALANKER. It would depend on how they become implemented. You know, high-risk pools are put out there and they can work, but they can only work if they are adequately funded. And the Tax Policy Center has estimated to adequately fund high-risk pools would be a trillion dollars over 10 years nationally, so that they sort of have that piece.

There have been some proposals around providing different forms of premium assistance, but I would say they are significantly lower than what is in the Affordable Care Act, which would make it more difficult for people to afford coverage unless the premiums are lower because fewer benefits are covered, in which we go back to what I had said earlier where the problem is people still need the health care, just instead of it being covered through insurance, they are paying for it themselves.

Mr. FITZPATRICK. But what is the way to drive cost down? Because as many have acknowledged, having an insurance care in your pocket is not the same as having health insurance. And do you agree with out-of-state competition? Do you agree with antitrust exclusions? Do you agree with medical liability reform? Some of the proposals that were put forth are designed to reduce cost and expand access.

Ms. PALANKER. I do not see those proposals as actually succeeding in reducing overall healthcare costs. I think, first of all, getting healthy people in will reduce health premiums, not necessarily—and that is an important piece of it. But to really reduce healthcare costs, it is really about changing how we deliver health care in the country which, you know, which includes trying to find ways to get people the right care in the best setting in the least costly manner. And it is really actually not as much about I would say the pieces that we have seen in some of the current proposals, but really gets back to how we deliver health care.

Mr. FITZPATRICK. Thank you. I yield back, Mr. Chairman.

Chairman CHABOT. The gentleman's time is expired. The gentleman yields back.

The gentleman from Kansas, Dr. Marshall, is recognized for 5 minutes.

Mr. MARSHALL. Thank you. Thank you, Mr. Chairman.

Mr. Hall, what from the ACA has been successful? What would you like to keep from it?

Mr. HALL. I would like to keep the no prescreening for preexisting conditions. I think whatever solution we have ought to be able to cover everyone, whether that includes a different rate band or whatever. I am not sure how that would work, but I think that part needs to be there. I think the subsidies for those people at certain income levels that have no other option. And my personal opinion is that we, as the taxpayers, are paying for the medical

care for those people anyway, so they should be part of the insurance pool. Those are the two things that immediately come to mind for me that I think we should make part of any solution we come up with.

Mr. MARSHALL. Okay. Mr. Kuhlman, kind of the same question. Would you add anything to what you would like to keep in the ACA?

Mr. KUHLMAN. He did hit on some good ones that I think that NFIB members would support. I cannot think of anything specifically more to add.

Mr. MARSHALL. Ms. Palanker, what is the holy grail of the ACA? What is most important to you? If you were in charge, what do you think is the most important thing we keep?

Ms. PALANKER. It is a very hard question to answer because people have talked about the ACA as a three-legged stool and I have started talking about it as a three-legged stool made out of Jenga blocks because so many pieces are interrelated that to try to have one thing stay, you know, you really need the other pieces. And I also think it is really more the goal. There are these goals of improving access, reducing costs, getting people covered altogether, and it is hard for me to pick one thing because, yes, 27 percent of the population is impacted by preexisting conditions, which is huge. Fewer people hit their annual limits or their lifetime limits, but I actually have a friend who is 5 years old, who was born——

Mr. MARSHALL. Sure.

Ms. PALANKER. —who was born with a congenital defect, who would have hit his limit in his first year of life. And, you know, so to me those are equally as important even though fewer people are impacted by one of them.

Mr. MARSHALL. Okay. Ms. Palanker, I will follow up with you. What do you think of transparency? What would that do to costs of health care?

Ms. PALANKER. Cost transparency?

Mr. MARSHALL. Yes. And quality. Cost and outcomes, quality.

Ms. PALANKER. I think cost transparency, quality transparency is very, very important. And I think it can in the long run reduce cost of health care and improve quality as well if it is done in a way that consumers of health care can access the information and can understand the information, which is sometimes very difficult. Quite honestly, some of those people who are experts in health care even have difficulty understanding and comparing costs right now.

Mr. MARSHALL. Okay. Are any of the panelists aware of what the average deductible for a Bronze Family Plan is in ACA right now? It is $12,000. Is that truly health insurance at all? Just because you have health insurance and you have a $12,000 deductible, to most people that is like not having health insurance at all. And I just wanted to make sure we point that out for a second.

Anybody on the panel have experience with high-risk pools? Go ahead.

Ms. PALANKER. Not direct experience, but having looked at the high-risk pools that existed before we had the Affordable Care Act, as I said, where they were successful was where there was significant public funding and enough to provide adequate benefits. And

there were three big problems in a number of States that had high-risk pools. One was that the annual limit was capped significantly. So people who had cancer, who had significant health costs, which was why they were there, actually could not get their health services covered. The other was extraordinarily high premiums that were unaffordable so people did not enroll. And the final piece was some States ended up with waiting periods. And if you have a high-risk pool with a waiting period, you have people uninsured while they are waiting to get in.

I will add that if you also have a continuous coverage requirement, that could create a problem because someone could then get caught waiting to get in to get coverage and also hurt because they cannot have continuous coverage because there is a waiting period.

Mr. MARSHALL. Thank you, Mr. Chairman. I will yield back my remaining time.

Chairman CHABOT. Thank you very much. The gentleman yields back.

The gentleman from Iowa, Mr. Blum, who is the Chairman of the Subcommittee on Agriculture, Energy, and Trade, is recognized for 5 minutes.

Mr. BLUM. Thank you, Mr. Chairman. Thank you to our panelists for being here today. I am a career small business person, so these issues are near and dear to me.

As I think about this issue, I think back to 2008-2009 and HHS Secretary then, Kathleen Sebelius, famously said, we are going to bend the cost curve down with the ACA. Former President Obama followed that up and he said, "Every single good idea to bend the cost curve down is in this bill." Over the last 4 years in Iowa, I have asked my constituents in almost every talk I have given about health care, give me an example where the Federal Government, 535 suits in Washington, D.C., have bent the cost curve down on anything. Life today, 4 years straight, zero hands have gone up.

I think we should just keep this simple. The ACA has not decreased healthcare costs. The ACA has shifted healthcare costs. The only proven way that I know to decrease the cost of any product, and I am sure Mr. Secor would agree with this, and increase the quality, is the miracle of the free market system. We need to unleash consumers in this marketplace. We need to make patients consumers.

Often, the patient today is described in this following analogy: You take your dog to the veterinarian and the veterinarian looks at the dog and he talks to the dog's owner about the prescribed course of action. Everybody has an input into the decision on what we are going to do other than the dog, other than the patient.

You know, as a business owner myself over the last 20 years, and some of my companies had over 300 employees, I have asked myself and my executive team, why are we making healthcare decisions? Why are we making health insurance decisions for 300 employees? That is over 1,000 people when you include their families.

I would like to have your thoughts on this. I think we need to unleash the consumers. I think we need to let the miracle of the free market work. I think we need to make patients consumers.

HSAs. I, as an employer, would rather deposit money into HSAs of every one of my employees and let them decide what is in their

best interest and their family's best interest. This will all work if we have competition. Competition is very important. But HSAs, the government can deposit in them. Employers can deposit into them. The employee can pretax deposit into them. They can go out and decide if they even want insurance and what is the best for them. I would like the panel's thoughts on HSAs and unleashing the miracle of the free market called consumers. And Mr. Secor, if you would start.

Mr. SECOR. I think it is an excellent idea. I think the one key component that has to happen is we have to have transparency in the cost and quality, and you have to come up—and I do not have the answer of how to create that, but we have to be able to get that out there.

The other thing that has complicated this in recent years is we have seen hospitals buying doctors' practices. For instance, well, now you go to the hospital to get the same care you used to go to the doctor's office to get, and the care in a hospital is more expensive, even if you are going into an office. And so a lot of that has occurred.

So I do not know how you sort of go back, if you can, or whatever, but whether it is the urgent care centers or whatever, but I think the transparency of getting that out so that they have something solid to work with, our people have done it.

Mr. BLUM. That is a great point. I agree with you.

Mr. HALL. I obviously agree as well. I think tax incentives are positive incentives. We talked about the penalty for not having an ACA, so we are trying to encourage people with negative stimuli. I think having positive stimuli is awesome. I would add the health reimbursement arrangements to the conversation so that you can have a whole range of individuals, of governments, the State, the Federal, lots of different people can share in the cost. I think the ACA was based on cost-sharing, but maybe the cost-sharing did not land the way we thought it was going to land. But HSAs, HRAs, expanding those, making everything on a level playing field makes a lot of sense.

Mr. BLUM. Because 99 percent of the conversation in this town is about who is going to pay. I think 99 percent of the conversation should be how can we drive the cost down so everybody can afford it.

Kevin?

Mr. KUHLMAN. Yeah, you could sign us up. I think the business owners and employees would be the most responsible stewards of the money if they were controlling it themselves. And I think there are some restrictions on many of those accounts that need to be modified or lifted or raised in order to make them truly viable for everybody.

Chairman CHABOT. The gentleman's time is expired. But go ahead, you can answer the question.

Mr. BLUM. Thank you, Mr. Chairman.

Ms. PALANKER. I would start by saying that the employer insurance market, particularly the large group market, was created by the free market. Employers really created that on their own in the United States and that sort of led to a large part of our system. As far as providing HSAs with the idea of an HSA or an HRA for

the individual employees to go and buy their own insurance, it needs to be recognized that, as we said, buying insurance is complicated and it is very, very hard for individuals to understand what they are purchasing. And one of the benefits of employers is having someone who really understands the business and the industry and how insurance works helping to find and purchase that insurance.

Also, if HSAs are connected to increasing deductibles, then you do end up shifting the cost onto the employee or the individual enrolling in coverage, especially if the money going into the HSA by the employer does not cover the cost of premium and deductible.

Mr. BLUM. I yield back, Mr. Chairman, the time I do not have.

Chairman CHABOT. The gentleman's time is expired.

The gentleman from Nebraska, Mr. Bacon, is recognized for 5 minutes.

Mr. BACON. Thank you, Mr. Chairman. I want to thank the panel for being here.

Thank you. The top complaint being either the cost of red tape, regulations, or the health care and ACA. Using just two examples, I had one small business share with me that they would hire nobody over 29 hours because it puts them over certain trip wires, and another small business said they would not hire anybody else because it would cost them $180,000 to provide more health care for the entire team. Is this a regular problem? I ask this to Mr. Secor and to Mr. Kuhlman. Do you see this a lot, that folk are making hiring decisions, not hiring more or not hiring people full time because of ACA?

Mr. SECOR. In our survey with small businesses people, it is changing the attitude and direction of companies in terms of the 30 hours, specifically, as well as in terms of, you know, looking at the limits in terms of 50 employees. And even when you are a small business, if you go look to pick up additional work, sometimes that additional work does not come in one employee; it comes in a new line. Well, that new line is 10 employees. So if I am at 42, I cannot put the new line in. And those types of decisions are in our survey that we are getting that feedback.

Mr. KUHLMAN. Yeah, I do not know if it figures out to the, like, national Census figures, but to those businesses, say, between and 60 employees, they are hypersensitive about both of those thresholds, the 50 full-time equivalent employee threshold and the 30-hour full-time employee definition. So that is most significantly the population that I hear from, those that are underneath, what does it mean crossing it, and those who are above it saying, you know, I do not want to, but if I have to do what can be done to get underneath it.

Mr. BACON. One more question for Mr. Hall. When I talk to the self-employed folks in our district, it seems clear to me that ACA is the number one issue. Many are paying $2,000 a month, $12,000 deductibles, or a combination thereof. Is there any issue that is more pressing to the self-employed right now other than fixing ACA?

Mr. HALL. For 20 years we have done surveys of our members, all self-employed. Very few of them have over five employees, so this is the marketplace that you are talking about. We always ask,

what are your big issues? And for 20 years it has always been three things. It has been access to capital; I need funding. It has been the tax code is too cumbersome for me; I do not understand it. And it has been access to quality health insurance. Those kind of bounce back and forth, which one is the top depending on where we are. There is no question today that that third one, access to quality health insurance and, different thing, and access to quality health care is the number one issue.

Mr. BACON. Thank you very much, and I yield back, sir.

Chairman CHABOT. Thank you. The gentleman yields back. And unless somebody else shows up, the last questioner today will be the gentlelady from American Samoa, Amata Radewagen, who is the Chairman of the Subcommittee on Health and Technology. You are recognized for 5 minutes.

Mrs. RADEWAGEN. Thank you, Mr. Chairman. And I want to thank the panel for appearing today.

In my home district of American Samoa, almost 100 percent of our businesses are small businesses. Here is my question for each of you. Considering that the United States territories were left out of the Affordable Care Act altogether, what sort of challenges do you see for these small businesses in the territories when Congress addresses reform of the small business healthcare marketplace? Mr. Secor?

Mr. SECOR. I am not sure what you have in terms of the system there now, so I guess it would depend on what you have today versus what you are going to get, so to speak. But my guess is if they include you in this, you will be in the same boat all the rest of us are and some may think that is good, some may think that is bad. But I think no matter where you are, if you are a small business, our people are telling us it is cost and availability, affordable product and care. And, but like I said, I really do not understand what your system is today.

Mr. HALL. I think pre-ACA, during the debate for ACA and after it has always been about quality, access, and affordability. So I think if this discussion were expanded to include the territories, which I think could expand the pools, which I think overall actuarially is a positive thing, but my best guess is, same thing, at the end of the day, there would be an improvement in access for sure. I think particularly those with preexisting conditions and those with particularly low income would have access that perhaps they would not otherwise have, but then the issue would continue to remain cost.

Mr. KUHLMAN. Agree. Cost and flexibility. And it is not for a lack of desire by the business owner. Just allow the business owner to help their employees because that is what they want to do. When you pile mandates or new requirements on top of them, that interferes with that relationship. So I think just sometimes the tendency to throw a heavy hand on top of it interferes with that relationship.

Mrs. RADEWAGEN. Thank you.

Ms. PALANKER. If we can expand the pieces that aim to make coverage for people more affordable to the territories, which does not exist right now, then coverage would be more affordable for individuals in the territories so that if things were not improved for

small businesses, but individuals could get premium tax credits, cost-sharing reductions, and also if there were consumer protections on the insurance benefits themselves. And the other piece is investing in the healthcare system is something that is very important, I know, for a number of the U.S. territories and making sure that we are making sure that our citizens have access to healthcare services. Good healthcare services.

Mrs. RADEWAGEN. Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you. The gentlelady yields back.

And in closing, I would just note that in my opinion there is probably no issue that this Congress, the 115th, will deal with in the next 2 years than dealing with the Affordable Care Act or Obamacare, or some people refer to it as the Unaffordable Care Act, whichever term you prefer. It affects so many Americans in so many ways and it is critical that the small businesses all across this Nation have a seat at the table. And this hearing was a part of that and you obviously saw that both sides had an opportunity to ask questions, and I think we had a very, very good panel here. All four of the witnesses I think did a great job, so we want to thank you for your participation as this debate continues over the upcoming weeks, months, and perhaps years.

That being said, I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record. Without objection, so ordered. And if there is no further business to come before the Committee, we are adjourned. Thank you very much.

[Whereupon, at 12:41 p.m., the Committee was adjourned.]

APPENDIX

Testimony of Tom Secor

President

Durable Corporation

On behalf of the National Small Business Association

House Small Business Committee

"Reimagining the Health Care Marketplace for America's Small Businesses"

February 7, 2017

1156 15th Street, N.W., Suite 502
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www.nsba.biz

Good Morning. Chairman Chabot, Ranking Member Velázquez and members of the House Small Business Committee, I want to thank you for the opportunity to address this body in reference to the current conditions that small businesses are facing since the passage of the Patient Protection and Affordable Care Act (ACA), and offer some solutions as Congress works to improve the law.

My name is Thomas E. Secor and I am the President of Durable Corporation, a small manufacturer and master distributor located in Norwalk, Ohio. Durable started in 1923, in Seattle, Washington, with the patented invention of the tire-link mat. A mat of small blocks woven onto wires to be used as an entrance mat or what was one of the first anti-fatigue mats. The blocks were made from used bias-ply tires (as opposed to steel-belted tires). We still make these mats today along with a number of other products utilizing components from used bias-ply tires, of which the primary product today is loading dock bumpers.

Durable opened a facility in Norwalk in 1941 and today it is the only facility in operation. We currently employ 37 individuals with an average tenure of 17.3 years. We operate one shift of production (4 – 10 hour days) and office (5 – 8 hour days). We currently offer a Medical Mutual health insurance product.

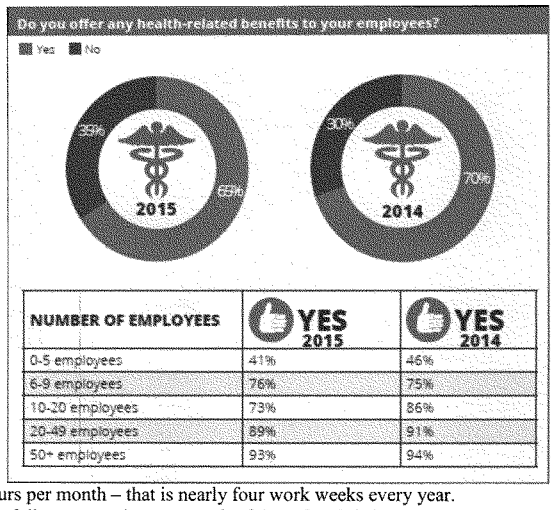
At Durable we do not produce the lowest cost products but we do produce a consistent high quality product and strive to provide exceptional customer service. The only way this happens is with a quality workforce that is dedicated to this mission. I can attest that these kind of hard-working, committed Americans do exist, as I get the pleasure to work with 36 of them every week.

I am pleased to be here also representing the National Small Business Association (NSBA), where I currently serve as a Board of Trustees member and Vice Chair of Membership. NSBA is the nation's oldest small-business advocacy organization, with over 65,000 members representing every sector and industry of the U.S. economy. NSBA is a staunchly nonpartisan organization devoted solely to representing the interests of the small businesses which provide almost half of private sector jobs to the economy.

Health care is certainly one of the most vexing problems facing small businesses, the enormous costs and ongoing uncertainty surrounding our health insurance system is a major cause for concern. Although NSBA's members operate a wide variety of businesses, they all consistently rank health care reform and cost containment as one of our highest priorities. As a business operator, I am deeply troubled by the ongoing difficulties our health care system creates for my fellow small-business owners and their employees, and by the fact that the most recent national effort to reform the health care system has done very little to address the costs we, as small-business owners face.

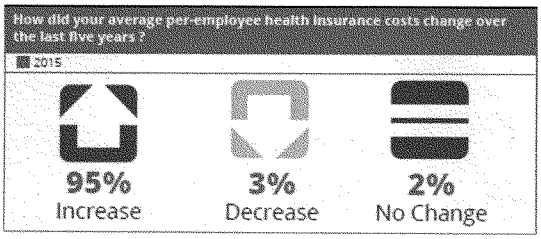
Fewer and fewer small businesses, especially those with fewer than 50 employees, offer health insurance as an employee benefit. This is not because they do not want to, or cannot find an insurance carrier in their market; it is because they simply cannot afford to offer a plan.

According to the NSBA's 2015 Health Care Survey, offering health insurance as an employee benefit is something the majority of small businesses think is very important in terms of recruiting and retaining good employees, yet fewer firms reported they offered some kind of health-related benefit than in 2014.



NUMBER OF EMPLOYEES	YES 2015	YES 2014
0-5 employees	41%	46%
6-9 employees	76%	75%
10-20 employees	73%	86%
20-49 employees	89%	91%
50+ employees	93%	94%

America's small businesses continue to face huge health care cost increases and struggle to navigate significant confusion and complexity with the new health care system. NSBA's survey found that when it comes to the ACA, the average time it takes per month for small businesses to stay abreast of all the changes to health care is 13 hours per month – that is nearly four work weeks every year. One-in-four small firms are purposefully not growing as a result of the ACA. It is important to note that the challenge with the cost of coverage is not restricted to employers alone. Individuals seeking coverage on their own, through the public exchanges (marketplaces) face the same issue.



In the NSBA survey, 90 percent reported increases in their health plan premiums at their most recent renewal, while 95 percent reported increased health insurance costs over the past five years. In fact, one-in-five small firms report premium increases exceeding 20 percent at their most recent renewal. Over the last five years, 69 percent report increases exceeding 20 percent.

The majority of small firms expect to continue seeing cost increases in the coming years and cost continues to be the number one factor in determining whether or not a small firm is able to offer its employees' health insurance. It is not only the direct cost that both large and small businesses and individuals must bear, but indirect costs as well, including the cost of compliance. Complexity and uncertainty give rise to a system that inappropriately overshadows and often stifles the ability of business owners and individuals to succeed, innovate, and pursue entrepreneurship.

Experience of Durable Corporation

In the fall of 2013, Durable was contacted by our health insurance agent who explained if we renewed our current plan on Dec. 1, 2013, we would have continuous coverage until Nov. 30, 2014, before we would have to try to figure out what we would have to do regarding ACA. So we decided to go with this option, causing less disruption in coverage for our employees—we were not alone in doing an early renewal. According to NSBA data, nearly half of small businesses in mid- to late-2013 either had done, or were considering an early renewal for the same reasons Durable did. Then in October 2014, we began exploring what our options would be after our current plan ended. While we had hoped by that time there would be some clarity and direction in the small-business market, it still did not exist and as we examined our options what became more and more apparent was that if we did find a product it was going to be far more expensive and provide far less coverage than what we were currently providing to our employees.

We tend to be an easy target since, unlike big corporations which have large staffs of accountants, benefits coordinators, attorneys, personnel administrators, etc. at their disposal, small businesses often are at a loss to keep up with, implement, afford, or even understand the overwhelming regulatory and paperwork demands of the federal government and in this case, the ACA.

Given the estimated substantial increase in cost to provide an ACA-approved product and the regulatory uncertainty, I made the hard decision that we had no other choice but to discontinue our health care benefits. Unfortunately, I am not alone in facing this type of dire situation. Since 2009 (the first time NSBA conducted a health care survey), the average per-employee health premium reported in their survey has increased by 90 percent. During this same period, growth and profits have been stagnant. It is little wonder that small-business owners are focused on this cost center, openly wondering whether the current regime is a system they can continue to afford, and increasingly worried that ACA will only add to their miseries.

As a result, I held a number of meetings with our employees, all of whom were sympathetic to the situation the company had been put in but extremely anxious as to what they were going to do. I contacted our health insurance agent and asked if she would come in and spend a couple of days talking to each of our employees individually to assist them in explaining their options. After the two days of meetings, it was determined that only two employees were going to receive any government assistance and the rest would have to purchase a health insurance product in the individual market at significant cost increases with greatly diminished coverage. This was a very trying time for everyone.

Then, at the last minute, I was informed that the Obama administration had decided that we could delay movement to an ACA-approved plan and keep offering our current Medical Mutual plan for an additional year since the small-business market that was envisioned in the legislation had not yet fully materialized. And each year thereafter we have anxiously waited for another extension, since the small-group market remains extremely costly for my business and therefore, for now, we have been allowed to continue offering our Medical Mutual plan.

So what really has happened to working Americans, at least at Durable?

I have attached a two page Health Insurance Annual Summary for the years 2013 through 2017 (see p. 11). The first page of the summary details the plan summary for both plans we offer. We call one a Traditional Plan, which has office co-pays, prescription drug card and has an 80 percent / 20 percent co-insurance after the deductible until the maximum out-of-pocket is met; and the other is a Health Savings Account (HSA) Plan with a high deductible which does not have the office co-pay or prescription drug card, but does provide prescriptions at negotiated rates, allow for pre-tax health-care savings and provides 100 percent insurance coverage after the deductible is met.

The second page displays the employees selecting coverage, the actual costs and who is paying them, the tenure of our employees and their average hourly wage. This page sheds some light on what is actually happening.

From 2013 through 2017, the company has paid 70 percent or more of the cost of coverage. The actual average total cost per employee of coverage has increased by a total of 51.7 percent while the actual annual total cost of coverage has increased by 41.2 percent. This 10 percent difference is due to employees changing the coverage selections (i.e. dropping children or spouses) and declining coverage altogether. Most of the employees in 2013, 2014 and 2015 that declined coverage had insurance through their spouse. The newer employees that are declining coverage have indicated to me that the reason is because it is just too expensive.

During this same period our average tenure began to decline, especially in the past two years, as some of our older employees began to retire. We had five employees retire by the end of 2015 which caused the dramatic decline in tenure. These higher wage retiring employees were also replaced by lower wage new hires which affected the 7.4 percent wage increase—essentially keeping the wages stagnant even though workers were receiving wage increases—over this period.

Given our philosophy of not trying to find the cheapest employees but rather requiring a quality individual dedicated to our mission, this wage will rebound in the next three to five years. Unfortunately, our wage increases simply are not enough to match the increase in the employees' health insurance costs.

These newer, younger and relatively healthier employees are just not willing to pay these prices for coverage. While the result is actually a short term cost savings for Durable, I really question what the long term ramifications of this will be.

This continuous lack of knowing and never-ending cost increases is not sustainable. Our employees, who get up and go to work every day deserve better. Deserve more certainty. Deserve more consideration. Deserve to have access to affordable health insurance and high quality health care services.

It is important to remember, these costs have real-world implications: the NSBA survey shows that one-third of small businesses held off on hiring a new employee and more than half say they

held off on salary increases for employees as a direct result of high insurance costs. Of course, these employment decisions are both a reflection of current costs and a window into uncertainty about what the future may hold, both for the economy and the health care system.

NSBA Recommendations

NSBA is focused on reform efforts to fix some of the issues most burdensome to small businesses. Understanding that the ACA, as passed, was primarily about expanding access, not reducing costs, efforts should be made to prioritize health care cost containment and reduce the rate of medical utilization while improving health care quality and empowering consumers.

Fair Sharing of Coverage

Incumbent on any requirement to purchase health insurance is the need to ensure that appropriate and affordable coverage is available for all. With a goal of universal participation there is a need to strike a balance between the population served, the premiums charged and the underwriting risk. NSBA proposes a fair playing field by implementing the following components:

- All individuals should be required to obtain reasonable coverage in the form of a truly basic plan. This will ensure that both healthy and sick individuals participate in insurance pools, spreading risk more evenly. Uncompensated care, currently funded through cost-shifting to the insured, would be dramatically reduced.
- Penalties for individuals' not demonstrating coverage are too low for the individual mandate to be effective; instead penalties should be increased similar to the level of the second lowest cost silver level plan available in the area the individual resides or, at a minimum, the late enrollment penalty applied by Medicare.
- The employer mandate creates greater uncertainty, enormous administrative burdens and financial unpredictability for both firms and employees—while doing virtually nothing to expand coverage—and should be repealed. An effective individual mandate would create market incentives for employer coverage.
- Three-to-one rate bands have dramatically driven up the rates for the young, uninsured, where cost is a significant barrier. NSBA supports returning to a 5-to-1 ratio which would provide relief for individuals and small groups, while keeping the cost down for younger employees and keeping them in the system.
- Eliminate the member level rating and return to a simple to understand and administer single, two-party and family rate structure (composite rating)—ending age discrimination by taking the target off the back of the age 50+ workers.
- Individuals and families should all be able to receive federal financial assistance for health premiums, based upon income. Currently, the subsidies are not available for catastrophic plans available to young Americans—eliminating this distinction will allow these new entrants into the work force to get the low cost coverage that meets their needs.

- The ACA lowered the definition of a full-time employee (FTE) to 30 or more hours per week. Absent eliminating the employer mandate altogether, NSBA supports returning to the 40 hours per week definition.
- Many medical providers have recently merged and/or affiliated with hospitals and/or health systems. Provider consolidation reduces competition by allowing outpatient practices and/or hospitals to gain bargaining power in negotiations with certain insurers, resulting in higher prices for services and/or changing the mix of treatments provided to patients leading to increased spending.
- Increased hospital-physician consolidation also allows more hospitals to receive higher reimbursement for performing the same service in hospital outpatient departments than a physician's office.
- An increase in transparency—a more rigorous review of mergers before they are concluded and increasing the public availability of data—would help facilitate a more robust measurement of the impact of consolidations, which is critically important for determining the impact on health care cost, quality and choice.
- Attention remains on the provider payment levels of the Medicare and Medicaid programs relative to those of commercial payers. In many areas, public programs pay providers significantly lower rates than do commercial health plans. Nationwide, this discrepancy has widened in recent years, as Medicare and Medicaid hospital payments have not kept up with the costs and Medicare physician payment levels have remained flat. The payment rate differential is a cost shift from the public programs to commercial payers. If Medicare and Medicaid paid higher rates, commercial payers could pay lower rates with health care providers still achieving the same overall reimbursement.

Individual Empowerment and Access

Wasteful, inefficient and improper health care is contributing astronomical sums to the overall cost of U.S. health care, and the best way to take a collective step back from the cliff is to engage consumers in their own health care. Engaging those consumers requires some important changes though. The Institute of Medicine estimates that $105 billion of annual waste in health care spending can be attributed to a lack of competition and excessive price variation. A lack of public information on the price of health care services contributes to this waste by denying employers, purchasers, and consumers the information they need to make smart choices. Wise decision making requires accurate information—and not simply MORE information, it must be clear, transparent and easy to understand—that will help consumers evaluate the options and make their own best health care decisions. In order to do this, NSBA offers these solutions:

- Reform the basic benefit package to include only truly necessary benefits and recognize the need for higher health plan deductibles tied into Health Savings Accounts (HSA's). This type of package would help return health insurance to its role as a financial backstop, rather than a reimbursement mechanism for all expenses. More robust consumer behavior will follow.

- The Centers for Medicaid and Medicare Services (CMS) is currently proposing individual and family out-of-pocket maximum levels for ACA-compliant health plans that do not correlate with the current tax code requirements that enable an individual or employer to have a compliant High Deductible Health Plan (HDHP) that then enables them to make HSA contributions. Bring uniformity between HSA's mandatory requirements in the tax code and the CMS's announcement of out-of-pocket maximum requirements in health plans.
- Making health insurance more expensive only makes a challenging situation worse. The Health Insurance Tax (HIT) and similar impositions only add costs that are simply passed along to small-business clients by health insurance companies. The result is fewer businesses offering health insurance to their employees, fewer jobs being created and less innovation. This is why NSBA has been working to fully repeal this onerous and unnecessary tax.
- Basing the Cadillac Tax simply on premiums with no consideration to the age of the covered population or geographic region of the country creates significant inequalities. If a Cadillac Tax is imposed it should be based upon the plan design and applied to Platinum level plans automatically regardless of cost. NSBA has long warned against the Cadillac tax because it will punish small businesses with plans that cost more simply due to the make-up of their workforce. The 40 percent excise tax will impact moderate benefit plans that middle class Americans rely on, as well as the employer-sponsored health insurance market. Further, including HSA, Health Reimbursement Arrangement (HRA) and health care Flexible Spending Account (FSA) contributions in the calculations is counter to the purpose of this tax. The complicated nature of calculating and paying the Cadillac Tax will further harm small employers.
- Repeal the medical device tax, which otherwise will ultimately be passed through insurance carriers to consumers in the form of higher premiums.
- Allow the self-employed to fully deduct the cost of their health insurance premiums—currently they cannot. This results in an additional 15.3 percent tax on the self-employed that no other business owner or worker pays.
- Alternatives to traditional doctors' offices and hospitals—retail clinics, telemedicine, volunteer programs, and urgent-care clinics—can offer near-term relief and should be supported.
- Create consistent tax incentives, regardless of whether health insurance is purchased through an employer or individually. Such incentives would be capped at the premium level for the required package, and additional coverage would be purchased using after-tax dollars. This will curtail over-insurance and ease demand for health benefits in lieu of other compensation.
- Waste, fraud, and abuse appear in all segments of the health care system and in all areas of the country. Fraudulent and abusive practices include overcharging or double-billing health insurance companies or the government for services provided, charging for services not provided, and rendering inappropriate or unnecessary care. Combatting and reducing waste, fraud, and abuse would save money for Medicare, Medicaid and private

payers, and improve the efficiency of the health care system. Any savings could contribute to funding for health reform.

Reducing Costs While Improving Quality

Too often the current third-party payment system financially rewards providers based upon frequency and not necessarily based upon the quality of care being delivered. Beyond the benefits that consumerism can bring, more must be done to improve quality and keep costs in check. A key reason health care costs are so high is because oftentimes health care prices are hidden—most patients and their physicians have little to no idea how much each procedure, medication, or hospital stay actually costs—which hinders market competition and keeps patients and their health care providers from making fully informed decisions. Needed elements to improve the quality of care include:

- Often, higher health care prices do not reflect higher quality. Transparency in pricing will make great strides towards creating informed, engaged health care consumers. This is achievable if HHS ensures that the ACA requirement that insurers provide cost sharing information is implemented in a consumer-friendly way. The ACA's cost sharing disclosure requirements should be modified so that the plan's quoted costs for episodes of care are guaranteed, and hospitals should provide uninsured and out-of-network patients with episode-based costs, which should also be guaranteed.
- Today, patients and purchasers do not have any firm data about performance or outcomes for a drug. With more information and transparency, patients can better decide the right treatment for their family and what price they are willing to pay.
- Allow CMS the ability to negotiate drug prices on behalf of Medicare Part D recipients.
- The continued implementation and the standardization of electronic health records including digital prescription writing, individual electronic medical records, and universal physician IDs can reduce unnecessary procedures, increase efficiency, and improve the quality of care.
- Transparency in both the cost of care and the quality of care being delivered is crucial to help consumers understand their own health care and cost—improved data also can form the basis for publicly-available health information about each health care provider, helping patients make informed choices.
- All providers should make publicly available, a plain-language list of the top 20 inpatient and out-patient procedures' charges (for all categories of patients: uninsured, out-of-network, and each negotiated rate with an insurer, plus Medicare and Medicaid rates) and risk-adjusted outcomes, to be updated annually and expanded until all procedures' cost and outcomes are publicly listed.
- Pay-for-performance initiatives should be adopted by insurers following the lead of the Centers for Medicaid and Medicare Services (CMS). Providers should be reimbursed based upon quality of the health outcomes, rather than procedures.

- Federal legislation to mitigate the cost of medical liability and defensive medicine should, at a minimum, establish a national statute of limitations on health care lawsuits, impose a cap on non-economic damages and limit punitive damage awards.
- Beyond traditional medical malpractice laws, NSBA supports some kind of safe harbor for physicians, as well as the use of Health Courts. Any safe harbor rule would have to be in conjunction with carefully-defined, evidence-based medical procedures. Physicians who abide by those standards and report outcomes would be allowed a certain level of protection from medical liability. Health Courts would allow for the establishment of specialized courts for dealing with medical malpractice claims.
- A conflict exists in the regulation of wellness plans—the EEOC and DOL have ruled on cases which significantly restrict an employer's ability to implement a wellness plan to help improve employees' health status and productivity. NSBA supports the enactment of legislation to clarify the employer's right to implement one-set of wellness plans as provided for in the ACA without interference by the EEOC and DOL.

The small-business community needs substantial relief from the ACA. This level of relief can only be achieved through a broad reform of the current health care system with a goal of reducing the cost of coverage, and providing universal coverage, focus on individual responsibility and empowerment, the creation of the right market-based incentives, and a relentless focus on improving quality while driving out unnecessary, wasteful and harmful care and removing added expenses.

Conclusion

The single most determining factor of the success of Durable is the quality and dedication of our employees. And while their knowledge and ability to perform their daily tasks is unbelievable, the expectation that they can navigate the health insurance market is unrealistic as they have never purchased this product in their entire life. As president, I select the health insurance products offered each year and do so under the guidance of a health insurance professional—without our agent, I too, would be at a loss. While the need for reform of the ACA is clearly urgent, and while there are a number of more short-term reforms that can improve on the system, what small businesses deserve is a health insurance product that is affordable, transparent and of high quality.

President Trump's Executive Order on Jan. 20 directed all federal agencies "to minimize the unwarranted economic and regulatory burdens" of the ACA. While administrative actions will be able to postpone or lighten the burden of the regulations in place, only Congress can actually change the underlying law, not only to provide relief from the existing rules but also to provide new opportunities to give Americans the option of more affordable coverage and more choices of coverage that families, business owners and workers want and need.

Again, thank you for what I consider a true honor to be able to address this committee of elected officials in our nation's capital and I look forward to answering your questions.

DURABLE CORPORATION - HEALTH INSURANCE ANNUAL SUMMARY

	Aetna	2014 - Medical Mutual		2015 - Medical Mutual		2016 - Medical Mutual		2017 - Medical Mutual	
	SprMed - HSA	SuperMed Plus	SprMed - HSA	OH HNOption	OH HNOptionHSA	SuperMed Plus	SprMed - HSA	OH HNOption	OH HNOptionHSA
	HSA Plan	**Traditional Plan**	**HSA Plan**	**Traditional Plan**	**HSA Plan**	**Traditional Plan**	**HSA Plan**	**Traditional Plan**	**HSA Plan**
In-Network Feature Summary									
Co-Insurance	100%	80%	100%	80%	100%	80%	100%	80%	100%
Deductible - Single/Family	$2,500/$5,000	$3,000/$9,000	$2,500/$5,000	$3,000/$9,000	$2,500/$5,000	$3,000/$9,000	$3,000/$6,000	$3,000/$9,000	$3,000/$6,000
Max out of Pocket - S/F	$2,500/$5,000	$6,000/$15,000	$2,500/$5,000	$6,000/$15,000	$2,500/$5,000	$6,000/$15,000	$3,000/$6,000	$6,000/$15,000	$3,000/$6,000
Office Visit - Copay	$0	$25	$0	$25	$0	$25	$0	$25	$0
Emergency Room - Copay	$0	$200	$0	$200	$0	$200	$0	$200	$0
Urgent Care - Copay	$0	$50	$0	$50	$0	$50	$0	$50	$0
Prescriptions	$10/$35/$60/$151	$10/$30/$60		$10/$30/$60		$10/$30/$60		$10/$30/$60	
Actual Monthly Cost									
Employee	$412.24	$441.12	$412.24	$529.93	$493.91	$575.55	$505.64	$627.68	$550.51
Employee/Spouse	$819.36	$882.24	$819.36	$1,059.86	$982.66	$1,151.10	$1,006.14	$1,255.36	$1,095.87
Employee/1 Child	$0.00	$576.90	$0.00	$690.08	$641.84	$753.59	$660.69	$821.21	$718.70
Employee/2 Children	$0.00	$0.00	$0.00	$850.23	$789.77	$931.63	$815.74	$1,014.74	$886.89
Employee/3 + Children	$645.00	$0.00	$0.00	$1,072.76	$995.21	$1,179.89	$1,031.82	$1,285.54	$1,122.19
Employee/Spouse/1 Child	$0.00	$1,018.02	$0.00	$1,220.01	$1,130.59	$1,329.14	$1,161.19	$1,448.89	$1,264.06
Employee/Spouse/2 Children	$0.00	$1,153.80	$1,070.58	$1,380.16	$1,278.52	$1,507.18	$1,316.24	$1,642.42	$1,432.25
Employee/Family	$1,035.00	$1,341.60	$1,244.21	$1,602.69	$1,483.96	$1,755.44	$1,532.32	$1,913.22	$1,667.55
Weekly Employee Cost									
Employee	$16.00	$22.00	$18.00	$24.50	$23.00	$26.50	$23.50	$29.00	$25.50
Employee/Spouse	$52.00	$65.00	$52.00	$79.50	$68.25	$86.25	$70.00	$94.25	$76.00
Employee/1 Child	$0.00	$43.00	$0.00	$41.25	$36.75	$45.00	$38.00	$49.00	$41.00
Employee/2 Children	$0.00	$0.00	$0.00	$57.75	$50.50	$63.50	$52.25	$69.25	$56.50
Employee/3 + Children	$43.00	$0.00	$0.00	$81.00	$69.50	$89.25	$72.00	$97.50	$78.25
Employee/Spouse/1 Child	$0.00	$79.00	$67.00	$96.25	$82.00	$104.75	$84.00	$114.25	$91.50
Employee/Spouse/2 Children	$0.00	$90.00	$75.00	$112.75	$95.50	$123.25	$98.25	$134.50	$107.00
Employee/Family	$80.00	$104.00	$87.00	$136.00	$114.50	$149.00	$118.25	$162.50	$128.50
Annual Cost - Employee									
Employee	$832.00	$1,144.00	$936.00	$1,274.00	$1,196.00	$1,378.00	$1,222.00	$1,508.00	$1,326.00
Employee/Spouse	$2,704.00	$3,380.00	$2,704.00	$4,134.00	$3,549.00	$4,485.00	$3,640.00	$4,901.00	$3,952.00
Employee/1 Child	$0.00	$2,236.00	$0.00	$2,145.00	$1,911.00	$2,340.00	$1,976.00	$2,548.00	$2,132.00
Employee/2 Children	$0.00	$0.00	$0.00	$3,003.00	$2,626.00	$3,302.00	$2,717.00	$3,601.00	$2,938.00
Employee/3 + Children	$2,236.00	$0.00	$0.00	$4,212.00	$3,614.00	$4,641.00	$3,744.00	$5,070.00	$4,069.00
Employee/Spouse/1 Child	$0.00	$4,108.00	$3,484.00	$5,005.00	$4,264.00	$5,447.00	$4,368.00	$5,941.00	$4,758.00
Employee/Spouse/2 Children	$0.00	$4,680.00	$3,900.00	$5,863.00	$4,966.00	$6,409.00	$5,109.00	$6,994.00	$5,564.00
Employee/Family	$4,160.00	$5,408.00	$4,524.00	$7,072.00	$5,954.00	$7,748.00	$6,149.00	$8,450.00	$6,682.00

DURABLE CORPORATION - HEALTH INSURANCE ANNUAL SUMMARY

	2013 - Aetna		2014 - Medical Mutual		2015 - Medical Mutual		2016 - Medical Mutual		2017 - Medical Mutual	
Annual Cost - Durable (Trad./HSA)	SuperMed Plus Traditional Plan	SprMed + HSA HSA Plan	SuperMed Plus Traditional Plan	SprMed + HSA HSA Plan	OH HNOption Traditional Plan	OH HNOptionHSA HSA Plan	SuperMed Plus Traditional Plan	SprMed + HSA HSA Plan	OH HNOption Traditional Plan	OH HNOptionHSA HSA Plan
Employee	$ 3,672.00	$ 4,114.88	$ 4,149.44	$ 4,010.88	$ 5,085.16	$ 4,730.92	$ 5,528.60	$ 4,845.68	$ 6,024.16	$ 5,280.12
Employee/Spouse	$ 6,528.00	$ 7,128.32	$ 7,206.88	$ 7,128.32	$ 8,384.32	$ 8,242.92	$ 9,328.20	$ 8,433.68	$ 10,163.32	$ 9,198.44
Employee/1 Child	$ -	$ -	$ 4,686.80	$ -	$ 6,135.96	$ 5,791.08	$ 6,703.08	$ 5,952.28	$ 7,306.52	$ 6,492.40
Employee/2 Children	$ -	$ -	$ -	$ -	$ 7,199.76	$ 6,851.24	$ 7,877.56	$ 7,071.88	$ 8,575.88	$ 7,704.68
Employee/3 + Children	$ 5,620.00	$ 5,504.00	$ -	$ -	$ 8,661.12	$ 8,328.52	$ 9,517.68	$ 8,637.84	$ 10,356.48	$ 9,397.28
Employee/Spouse/1 Child	$ -	$ -	$ 8,108.24	$ (3,484.00)	$ 9,635.12	$ 9,303.08	$ 10,502.68	$ 9,566.28	$ 11,445.68	$ 10,410.72
Employee/Spouse/2 Child	$ -	$ -	$ 9,165.60	$ 8,946.96	$ 10,698.92	$ 10,376.24	$ 11,677.16	$ 10,685.88	$ 12,715.04	$ 11,623.00
Employee/Family	$ 8,352.00	$ 8,260.00	$ 10,691.20	$ 10,406.52	$ 12,160.28	$ 11,853.52	$ 13,317.28	$ 12,238.84	$ 14,508.64	$ 13,328.60
Employees electing cover:	29	81%	29	81%	29	81%	29	78%	27	73%
Employees declining	7	19%	7	19%	7	19%	8	22%	10	27%
Total Employees	36		36		36		37		37	
Est. Annual Cost - Employ	$ 62,556.00	30%	$ 64,168.00	29%	$ 77,441.00	28%	$ 83,031.00	26%	$ 82,823.00	28%
- Compar	$ 147,660.00	70%	$ 157,817.36	71%	$ 198,106.12	72%	$ 212,628.60	72%	$ 213,999.16	72%
- Total	$ 210,216.00		$ 221,985.36		$ 275,547.12		$ 295,659.60		$ 296,822.16	
% +/- Prev. Yr.			6%		24%		7%		0%	
Avg. Total Cost per Empl	$ 7,248.83		$ 7,654.67		$ 9,501.62		$ 10,195.16		$ 10,993.41	
% +/- Prev. Yr.			5.6%		24.1%		7.3%		7.8%	
Average Tenure (Years)	21.3		22.6		22.8		18.5		17.3	
Average Hourly Wage	$ 16.16		$ 16.75		$ 17.23		$ 17.29		$ 17.35	
% +/- Prev. Yr.			4%		3%		0%		0%	

PATIENT CONSENT FORM

I understand that, under the Health Insurance Portability & Accountability Act of 1996 (HIPAA), I have certain rights to privacy regarding my protected health information. I understand that this information can and will be used to:

- Conduct, plan and direct my treatment and follow-up among the multiple healthcare providers who may be involved in that treatment directly and indirectly.
- Obtain payment form third-party payors.
- Conduct normal healthcare operations such as quality assessments and physician certifications.

You have informed me of your *Notice of Privacy Practices* containing a more complete description of the users. I have been given the right to review such *Notice of Privacy Practices* prior to signing this consent. I understand that this organization has the right to change its *Notice of Privacy Practices* from time to time and that I may contact this organization at any time at the address below to obtain a current copy of the *Notice of Privacy Practices*.

I understand that I may request in writing that you restrict how my private information is used or disclosed to carry out treatment, payment or health care operations. I also understand you are required to agree to my requested restrictions, but if you do agree that you are bound to abide by such restrictions.

I understand that I may revoke this consent in writing at the time, except to the extent that you have taken action relying on this consent.

Patient Name: _____

Signature: _____

Relationship to Patient: _____

Date: ____/____/_____

AUTHORIZATION TO RELEASE INFORMATION TO:

1)_____

2)_____

National Association for the Self-Employed

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Statement of Mr. Keith Hall
President & Chief Executive Officer
National Association for the Self-Employed

"Reimagining the Health Care Marketplace for America's Small Businesses"

U.S. House of Representatives
Small Business Committee
Full Committee

February 7, 2017

Chairman Chabot, Ranking Member Velazquez, and members of the House Small Business Committee, thank you for the opportunity to join you today to share with you the opinions and thoughts of the National Association for the Self-Employed (NASE) – representing millions of America's self-employed and micro-business owners throughout the country -- on this incredibly important topic. Before we begin, I think it is worth acknowledging today's hearing title, "*Reimagining the Health Care Marketplace for America's Small Businesses*." The use of the word "reimagining" resonates with the members of our association, as I believe it acknowledges the unique and dynamic population we are addressing today. Our members, who include self-employed and micro-business owners numbering over 27 million, are constantly reimagining themselves, exploring new opportunities, and are more adept at dealing with change due to their experience in maintaining and growing their small business. The self-employed population is unique in that they capture the "can do" spirit of America, but I also think that today's use of "reimagining" speaks to the difficulty of the current situation. There is significant opportunity to reimage the health care marketplace for America's smallest businesses, but it will take great imagination and a significant "can do" effort to get it done.

The NASE is the nation's leading advocate and resource for America's over 27 million self-employed and micro-businesses, offering a broad range of benefits to help entrepreneurs succeed and to drive the continued growth of this vital segment of the American economy. For over 35 years, we have supported, encouraged, advocated on behalf of, and motivated the millions of Americans who have chosen self-employment. It is also worth noting in today's testimony that the NASE sponsored an association group health care plan prior to the Affordable Care Act (ACA), solely because the process of securing a comprehensive and affordable health insurance plan was nearly impossible for the self-employed business owner. It is important to understand that our members view their health insurance purchase as a business decision and unfortunately the self-employed and micro-business owners currently do not receive the same tax incentive as other businesses. Therefore, the self-employed business owner is caught in the middle because they don't typically qualify for subsidies, while also not receiving the same favorable tax treatment as other businesses.

Today we are focused on solutions and we certainly appreciate the opportunity to provide our commentary on the current climate and how legislative action could both stabilize and foster a robust health care system that is rooted in three principles: quality, accessibility, and affordability.

Quality

It is important to acknowledge that in many aspects the ACA got it right and the good public policy initiatives that make sense should be championed and included in any ACA reform legislative vehicle. The NASE would like to highlight two such initiatives:

Protection against pre-existing conditions exclusion

For our members, prior to the ACA, the number one reason for denial of coverage was due to a pre-existing condition. This caused many of our members to either forgo health insurance or purchase a catastrophic health care plan that was a poor safety net. We support the language included in Speaker Ryan's, "*A Better Way: Our Vision for a Confident America,*" which is one of many proposals that continues to prohibit a pre-existing conditions exclusion.[1] In December 2016, the Kaiser Family Foundation released a new study that estimated nearly 52 million Americans have a pre-existing condition that would disqualify them from coverage under pre-ACA market conditions.[2]

Essential Health Benefits/Preventative Health Services

Another key area for our members is the well-intended inclusion of the essential health benefits and preventative health services required by each health insurance plan offered to meet qualified health care plan status. The challenge for many carriers as it relates to meeting the essential health benefits requirements was the ability for states to require their own, additional benefits, which drove costs up in those markets unfairly burdening the consumer. This is an area that we believe has an opportunity for reform. The Trump Administration has signaled that they will use the regulatory process to redefine the required benefits that each health insurance plan must offer.[3] The NASE supports common sense reform in this area.

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[1] https://abetterway.speaker.gov/_assets/pdf/ABetterWay-HealthCare-PolicyPaper.pdf

[2] http://kff.org/health-reform/issue-brief/pre-existing-conditions-and-medical-underwriting-in-the-individual-insurance-market-prior-to-the-aca/

[3] https://www.washingtonpost.com/powerpost/obama-to-huddle-with-democrats-on-protecting-his-signature-health-care-law/2017/01/04/34b655e8-d1f9-11e6-945a-76f69a399dd5_story.html?utm_term=.50aee7bc7e5a

Accessibility

For definition purposes, we define accessibility as how our members purchase health insurance and access the benefits of those plans. It is a fact that the number of health insurance plans offered in the marketplace has drastically declined, severely limiting competition and choice for the consumer. In 2017, it is estimated that there will be 65 less providers in the marketplace. Additionally, consumers in 687 counties will only have one approved ACA insurer, compared to the 182 counties in 2016.[4]

Permit Sale of Insurance Across State Lines

A key component of nearly all ACA reform proposals include providing insurance across state lines. In fact, a main objection of the NASE during the ACA debate was the restriction of consumers to shop across state lines. Allowing for the sale of insurance across state lines will immediately boost competition which will help drive costs down, all benefitting the consumer.

Access to Care

In our analysis of the numerous proposed reforms to the ACA, not a single one addresses the issue of access to care. Anecdotally, our members have reported 1) increasing wait times to see primary care physicians and specialists, 2) shrinking provider networks, especially as it relates to specialists, and 3) losing access to their life-long family doctor. Currently, we have a system that is struggling with the influx of millions of Americans who previously were uninsured who are now seeking the benefits of those plans. The estimated 11 million Americans who now have insurance under the ACA are straining a health care system that was previously struggling to provide basic services in underserved and underpopulated communities. Given the political landscape, we believe this is an area of reform that could elicit bi-partisan support, specifically, proposals around job training, promotion of non-doctoral medical professionals such as nurse practitioners and certified physician assistants, are several areas in which Congress and the Administration could work together in ensuring every American has the access to care they need.

[4] http://www.vox.com/a/obamacare-competition-2017

Affordability

For NASE members, the single greatest driver in their evaluation and decision in purchasing health insurance is affordability. In our view, the ACA has proven that consumers are not prioritizing essential health benefits or lifetime limits, but are instead solely fixated on the bottom line costs of purchasing health insurance.

Health Insurance Deductibility

Unique to the self-employed business community is the restriction of a self-employed individual from deducting their health insurance premiums. Under the ACA, the profile of the self-employed business owner is no different than any other segment of America as to subsidies, age-bands, exchange options, and ultimate cost. However, the ultimate cost is not treated the same for tax purposes. The bottom line is that the self-employed business owner pays up to 15.3% more for the cost of health insurance simply because those health insurance premiums are not treated the same for taxes as for everyone else. The NASE will continue to advocate for the equitable treatment of all businesses, including for the ability of the self-employed to deduct the costs associated with their health insurance the same way in which other businesses are currently allowed,. Until the tax code can be adjusted to a level playing field, it will be difficult to truly address affordability.

Expansion of Consumer Driven Health Products

The NASE has been a passionate advocate for consumer drive health products, specifically, health reimbursement arrangements. Unfortunately, for the past three years the NASE has been locked in a regulatory battle with the Departments of Treasury and Health and Human Services over technical guidance issued over the use of health reimbursement arrangements, even though the ACA did not address HRAs. While we found some level of relief through the *21st Century Cares Act*, HRAs still have a number of limitations placed on how they can be used by the self-employed and micro-business community. We hope that as Congress deliberates on ACA reforms that they will remove all restrictions on HRAs.

For the NASE, having a robust health insurance marketplace is a significant factor for the long-term growth of the self-employed sector. This is important and virtually every single one of the 27 million self-employed Americans will be affected by what you decide. We hope we have adequately expressed our opinions on quality, access, and affordability, but equally important is expressing our support and commitment to working together in finding solutions to these complicated issues. The current chaotic marketplace is causing real uncertainty for our members and their families. Our formal request is that the solutions that are agreed upon will treat the self-employed business owner on an equal standing with our larger, corporate counterparts. Quality should be the same. Access should be the same. And affordability should be the same. We believe this country is supported by the unique creativity and intuitive problem solving nature of the American entrepreneurial spirit. Give us the system, give us the plan, and we will work within that plan. But we humbly ask that the rules be the same for our businesses as it is for big businesses. We believe there is a path forward that allows for lawmakers and the Administration to stabilize the marketplace while drafting a comprehensive reform package that *reimagines the health care marketplace for America's small businesses.*

Testimony of Kevin Kuhlman,

House Committee on Small Business

February 7, 2017

Reimagining the Health Care Marketplace for America's Small Businesses

Chairman Chabot, Ranking Member Velázquez, and members of the Small Business Committee, thank you for the invitation to testify at this important and timely hearing titled *Reimagining the Health Care Marketplace for America's Small Businesses*. My name is Kevin Kuhlman; I am the Director of Government Relations at the National Federation of Independent Business (NFIB). I manage NFIB's health care legislative and regulatory advocacy.

NFIB is the nation's leading small business advocacy organization. Founded in 1943 as a nonprofit, nonpartisan organization, NFIB's mission is to promote and protect the right of its members to own, operate, and grow their businesses. NFIB represents about 325,000 independent business owners located throughout the United States.

The rising cost of health insurance has been the number one problem for small business owners for thirty years.[1] Because of the cost problem, NFIB was active from the outset of health care reform and throughout the legislative and regulatory processes of the Affordable Care Act (ACA).[2] After passage, NFIB tracked implementation of the ACA through four scientific research surveys. NFIB continues to collect member stories about the ACA's impact. According to this feedback, the costs to small businesses outweighed the benefits, and the ACA led to higher health care costs, increased compliance burdens, and decreased flexibility.

These consequences led to a significant 25 percent reduction in the offer rate for small businesses between 2010 and 2015.[3] For the first time, fewer than 30 percent of businesses with under 50 employees offered health insurance to their employees in 2015. Small business was clearly an afterthought during ACA consideration and implementation.

As Congress considers a partial repeal of the ACA through reconciliation and a repair of the health insurance markets, please prioritize affordability, flexibility, and predictability for small businesses. Health reform that works for small business will work for the rest of the country.

Under the ACA

Higher Health Insurance Costs

The cost problem predates the ACA, but the law exacerbated the problem. The ACA was the most significant federal overhaul of the individual and small business health insurance markets ever. Forty-one percent of small business

[1] Small Business Problems and Priorities, NFIB Research Foundation, August 2016, http://www.nfib.com/assets/NFIB-Problems-and-Priorities-2016.pdf.
[2] Dan Danner comments at White House Health Care Summit, March 6, 2009, https://www.c-span.org/video/?284447-3/white-house-health-care-summit-closing.
[3] Medical Expenditure Panel Survey, Agency for Healthcare Research and Quality, Department of Health and Human Services, 2010-2015, https://meps.ahrq.gov/data_stats/summ_tables/insr/national/series_1/2015/tia2.pdf.

owners purchase health insurance in the individual market and 33 percent purchase insurance through their business.[4] The ACA added new insurance requirements[5] and taxes to these markets. Insurance requirements such as community rating and the essential health benefits package drove up plan costs. These costs were passed along to small business owners and employees in the form of higher health insurance premiums and out-of-pocket costs.

New taxes and fees on health insurance products also drove up costs. Congress thankfully approved temporary relief from two of the taxes created in the law in late 2015. Congress suspended the health insurance tax for 2017, saving small businesses and employees from an additional $400 per family,[6] but the tax restarts in 2018 and escalates in future years. Congress also delayed the Cadillac tax on high-cost group plans for two years, but the new implementation date of 2020 remains in the not-so-distant future.

Small businesses also suffer from higher administrative costs than both the individual market and larger businesses.[7]

For small business owners, the requirements, taxes, and administrative costs are less likely to be offset by tax credits than the overall population. Only six percent of small employers receive advanced premum tax credits (APTCs) in the individual exchange marketplaces.[8] Many of the nine million unsubsidized individual market enrollees are small business owners. Few small businesses qualified for the small business health insurance tax credit, and the credit expired last year for businesses that did initially qualify.[9] This population needs the most cost relief.

Increased Compliance Burden

Inevitably, any major legislative overhaul is complex, and agencies details much of the implementation through regulations. ACA implementation by the Departments of Health and Human Services (HHS), Labor (DOL), and Treasury increased compliance and paperwork burdens for small businesses.

All businesses, regardless of size, are required to provide new employees with a Notice of Coverage Options document describing the health insurance exchange

[4] Small Business's Introduction to the Affordable Care Act, Part III, National Federation of Independent Business Research Foundation, November 2015, http://www.nfib.com/surveys/aca-2015/.
[5] Report to Congress on the impact on premiums for individuals and families with employer-sponsored health insurance from guaranteed issue, guaranteed renewal, and fair health insurance premiums provisions of the Affordable Care Act, Centers for Medicare and Medicaid Services Office of the Actuary, February 21, 2014, https://www.cms.gov/research-statistics-data-and-systems/research/actuarialstudies/downloads/aca-employer-premium-impact.pdf.
[6] Joint Committee on Taxation, Letter to Senator Jon Kyl, June 3, 2011, http://www.ahipcoverage.com/wp-content/uploads/2011/11/Premium-Tax-JCT-Letter-to-Kyl-060311-2.pdf.
[7] Congressional Budget Office, Private Health Insurance Premiums and Federal Policy, February 2016, https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51130-Health_Insurance_Premiums.pdf.
[8] Small Business's Introduction to the Affordable Care Act, Part III, National Federation of Independent Business Research Foundation, November 2015, http://www.nfib.com/surveys/aca-2015/.
[9] Small Employer Health Tax Credit, Limited Use Continues due to Multiple Reasons, Government Accountability Office, http://www.gao.gov/assets/680/675969.pdf.

marketplaces. All offering employers must additionally provide employees with an annual Summary of Benefits and Coverage document describing the group insurance the company offers.

The biggest current compliance headache is the employer mandate. Businesses with 50 or more employees – considered large by the ACA but small by the Small Business Administration (SBA) – must offer affordable and adequate health insurance coverage to employees, or pay penalties. The mandate seems intuitive, and the provision reads only four pages in the statute. But the proposed regulation spanned 144 pages,[10] and the final regulation read 227 pages long with 50 definitions, many of which were new.[11]

This mandate – fully implemented in 2016 – requires significant compliance responsibilities. The compliance provision in the statute was three pages long, the proposed regulation was 72 pages long,[12] the final regulation was 84 pages long,[13] and the IRS instructions are 19 pages long.[14] Businesses must track the cost of coverage to each employee monthly, provide current and former employees with a transmittal form (Form 1095), and provide the IRS with another form (Form 1094). Self-insured businesses, even those with under 50 employees, must also comply using this method.

I listed those figures to demonstrate that the IRS estimation of 4 hours and 12 minutes to conduct research, complete paperwork, and file forms is grossly understated. In reality, it takes much more time to comply. Treasury also disagreed with NFIB and the SBA Office of Advocacy[15] that the employer mandate requirement and compliance would have a significant economic impact on a substantial number of small businesses, triggering a regulatory impact analysis. That unrealistic estimate and lack of analysis are frustrating for small business owners.

These details are timely because this spring is when communication between the IRS and businesses will begin for the tax year 2015. Business owners must comply with the employer mandate requirements in 2016, while simultaneously reconciling their 2015 compliance.

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[10] Shared Responsibility for Employers Regarding Health Coverage, Notice of Proposed Rule Making (Public Inspection), Internal Revenue Service, January 2, 2013, https://s3.amazonaws.com/public-inspection.federalregister.gov/2012-31269.pdf?1356729431.

[11] Shared Responsibility for Employers Regarding Health Coverage, Final Regulations (Public Inspection), Internal Revenue Service, February 12, 2014, https://s3.amazonaws.com/public-inspection.federalregister.gov/2014-03082.pdf?1392067029.

[12] Information Reporting by Applicable Large Employers on Health Insurance Coverage Offered Under Employer-Sponsored Insurance, Notice of Proposed Rulemaking (Public Inspection), Department of Treasury, https://s3.amazonaws.com/public-inspection.federalregister.gov/2013- 21791.pdf.

[13] Information Reporting by Applicable Large Employers on Health Insurance Coverage Offered Under Employer-Sponsored Insurance, Final Regulations (Public Inspection), Department of Treasury, https://s3.amazonaws.com/public-inspection.federalregister.gov/2014-05050.pdf.

[14] Instructions for Forms 1094-C and 1095-C, IRS, 2016, https://www.irs.gov/pub/irs-prior/i109495c--2016.pdf.

[15] Wilkins, Letter to IRS re: Shared Responsibility for Employers Regarding Health Coverage (REG-138006-12), Small Business Administration Office of Advocacy, February 11, 2013, https://www.sba.gov/sites/default/files/files/IRS_Employer_Mandate_Letter_2_11_2013.pdf.

Whether outsourced to a payroll company or handled within the business, these increased compliance requirements lead to higher costs for small businesses.

Decreased Flexibility

IRS regulations limited flexible arrangements that were a common market practice for small businesses. Fewer and fewer small businesses can afford the high cost of group health insurance. Instead, to assist employees with health care costs, many small businesses directly paid for or reimbursed employees' individual market health insurance plans and qualified medical expenses. These arrangements – which the IRS termed "employer health care arrangements" – worked for both employers and employees. NFIB estimated 16 percent of businesses reimbursed employees for insurance they purchased on their own in 2015.[16]

In 2013, the IRS published sub-regulatory guidance that prohibited employers from further assisting employees with these arrangements, declaring they violate the ACA's group health plan requirements.[17] One year later, in a frequently-asked-questions (FAQ) document, the IRS attached a $100 per employee per day penalty for continuing the practice.[18] Penalties of this magnitude would be catastrophic for small businesses, forcing many to close their doors. These businesses are not required to offer health insurance, but are trying to help their employees.

Congress thankfully protected businesses from the penalties and partially restored the practice in the *21st Century Cures Act*, but more can be done through legislation or regulation to encourage a defined-contribution health insurance system for small businesses.

The Small Business Need for Replace

Repeal will eliminate taxes and mandate penalties, providing relief for small business owners. But more action must be taken to lower costs and increase coverage options. Congress cannot only pass repeal legislation without considering replacement legislation that focuses on affordability, flexibility, and predictability for small businesses.

Affordability

Reconciliation rules prevent reconsidering the increased health insurance requirements in repeal legislation. These insurance requirements, included in

[16] Small Business's Introduction to the Affordable Care Act, Part III, National Federation of Independent Business Research Foundation, November 2015, http://www.nfib.com/surveys/aca-2015/.
[17] Notice 2013-54, Application of Market Reform and other Provisions of the Affordable Care Act to HRAs, Health FSAs, and Certain other Employer Healthcare Arrangements, Internal Revenue Service, September 13, 2013, https://www.irs.gov/pub/irs-drop/n-13-54.pdf.
[18] Employer Health Care Arrangements, Frequently Asked Questions, Internal Revenue Service, January 3, 2017 (last updated), https://www.irs.gov/affordable-care-act/employer-health-care-arrangements.

Title I of the ACA, were cost drivers for individuals and small businesses. In any replacement or repair legislation, revisit these requirements with a focus on affordability.

To assist with affordability for individuals, Congress can equalize the tax treatment between the group market and the individual market. Self-employed individuals do not enjoy the same tax-preferred benefits as businesses purchasing group coverage. S-corporation business owners also face restrictions on deducting health insurance expenses. A more equal tax treatment will help with health insurance affordability for this population.

Adjusting tax and insurance rules with a laserlike focus on affordability will organically increase coverage for the small business population.

Flexibility

NFIB continues to advocate for innovative offering arrangements. Ten years ago, NFIB led the effort to allow for Association Health Plans and Small Business Health Plans. NFIB more recently supported the *Small Business Health Care Relief Act* that allowed businesses to contribute to their employees' individual market health insurance with tax-preferred dollars. The ACA eliminated these innovative offering arrangements, but NFIB helped lead the effort to restore them on a limited basis in the *21st Century Cures Act*. Improving and expanding these arrangements will allow small businesses to tailor benefits that fit their employees' needs and could help stabilize the individual health insurance market.

Expand and enhance consumer-driven health insurance products like health savings accounts (HSAs), flexible spending accounts (FSAs), and health reimbursement arrangements (HRAs) will allow more individuals to take advantage of the products, saving tax-preferred funds for predictable and unforeseen medical expenses.

Increasing flexibility will restore small businesses' ability to tailor their health benefits to their businesses' budgets and their employees' needs.

Predictability

Small businesses were promised that if they liked their health insurance plans, they could keep their health insurance plans. While it is too late for many small business owners who suffered a wave of cancellations, some still maintain transitional plans. Congress or the Administration should allow individuals and businesses to keep transitional policies by relaxing grandfather plan regulations and extending the Obama Administration's grandmother plan extension policy.[19]

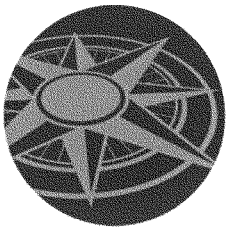
[19] Memo from Kevin Counihan, Extended Transition to Affordabe Care Act-Compliant Policies, February 29, 2016, https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/final-transition-bulletin-2-29-16.pdf.

These policies could enroll new individual and business customers to ensure true choice.

During the repeal and repair process, Congress and the Administration must avoid disrupting the individual and small business health insurance markets. Repeal legislation must be accompanied by replacement proposals.

Conclusion

NFIB remains committed to actively advocating for solutions that promote affordability, increase flexibility, and ensure predictability for small businesses. Again, health reform that works for small business will work for the rest of the country. Thank you for allowing me to testify today, I look forward to any questions.



Georgetown University Health Policy Institute

CENTER ON HEALTH INSURANCE REFORMS

U.S. House of Representatives Small Business Committee Hearing:

"Reimagining the Health Care Marketplace for

America's Small Businesses"

February 7, 2017

Statement of Dania Palanker, J.D., M.P.P.

Assistant Research Professor

Center on Health Insurance Reforms

McCourt School of Public Policy

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Chairman Chabot, Ranking Member Velázquez, and members of this committee: Thank you for the opportunity to participate in today's hearing about the health care marketplace for small businesses. My name is Dania Palanker. I am an assistant research professor at Georgetown University's Center on Health Insurance Reforms. However, the views I share here today are my own and do not represent those of the university, its faculty or staff.

History of Barriers to Health Insurance Benefits for Small Businesses

Small business owners have long struggled to provide health insurance to their workers, facing high and often volatile premiums. These struggles have existed for decades. One of the goals of the Patient Protection and Affordable Care Act (ACA) was to lessen these burdens. Relative to large businesses, small businesses had a lack of market power for negotiating premiums and high administrative costs associated with covering a small number of workers. In addition, minimum participation requirements used to safeguard against adverse selection meant that small businesses could often only offer one plan and had to cover a hefty portion of their workers' premiums in order to get enough workers to enroll. If small businesses did not offer coverage, their workers often could not get covered through the individual market because of preexisting condition exclusions or unaffordable premiums.

These pressures contributed to a steady decline in the number of small businesses offering coverage in the years leading up to the passage and implementation of the ACA and left employees of small businesses more likely to be uninsured. In 2012, only half of businesses with 3 to 9 workers offered health insurance benefits and less than three quarters, 73 percent, of businesses with 10 to 24 workers offered health insurance benefits. In comparison, 98 percent of business with 200 or more workers offered health insurance in the same year.[1] The small group market provided coverage to only a minority of small business owners. Only one in five, 19 percent, of small businesses owners with 24 or fewer workers received health insurance through the small group market in 2011. Twenty-five percent of small business owners with 24

or fewer workers were uninsured and 30 percent purchased non-employment based private insurance – primarily through the individual market.[2]

Lack of Federal Benefit Requirements Left Small Business Owners and Their Workers Without Adequate Coverage Before the ACA

Workers of small businesses who received insurance historically had less generous coverage than those working for large employers, with much higher deductibles and lower employer contributions for dependent coverage.[3]

Before the ACA, there was no federal requirement that businesses with less than 15 employees include maternity coverage as part of their health benefits. The Pregnancy Discrimination Act, which requires employers that provide health insurance benefits cover pregnancy related services on the same basis as other health care services, applies only to employers with 15 or more employees. In 2010, only 15 states required all small group market health insurance products to cover maternity services.[4] Therefore, health plans for the smallest employers, with less than 15 workers, were not required to cover maternity services in 35 states and the District of Columbia - leaving some workers and their spouses without coverage for tens of thousands of dollars in prenatal care and childbirth costs. The average cost of childbirth in 2010 was about $30,000 for a vaginal delivery and over $50,000 for cesarean delivery.[5] Median household income in 2010 was $49.445,[6] lower than the average cost of a cesarean childbirth.

Additional essential health benefits were excluded from some small group plans. In 2010, health insurers in 23 states were not required to include mental health coverage in small group plans, leaving many employees and their dependents without important mental health services.[7] Similarly there was no federal requirement to cover substance use disorder treatments, including addiction counseling, inpatient treatments and prescription drugs. Some plans excluded all prescription drug coverage. Sixteen percent of the three largest small group market health insurance products in each state only covered prescription drugs as an

optional benefit in 2011, meaning that small businesses could purchase a plan without prescription drug coverage.[8] If these products were purchased without the prescription drug benefit, small business workers with conditions such as asthma, diabetes, cancer, and hypertension were left without coverage for medications to manage their illnesses.

The ACA Improved the Small Group Health Insurance Market

The ACA sought to address many of the failures of the small group insurance market. The ACA established a set of national minimum standards that took aim at the most glaring problems in the small group market. All new health insurance plans offered in the individual and small group market must cover a set of essential health benefits – including maternity and newborn care, mental health and substance use services, prescription drug coverage, preventive services, pediatric services, and hospitalization. As a result, people who work for small businesses that offer coverage are now more likely to have affordable access to health care that can keep them healthy – such as preventive services and medications to manage chronic conditions. Consistent with protections in the individual market, the small group reforms prohibit health underwriting, so insurers cannot charge higher premiums to groups with higher expected health costs; require first-dollar coverage of preventive services without cost-sharing, such as cancer screenings; ended annual and lifetime benefit limits; banned pre-existing condition exclusions; and capped enrollees' annual out-of-pocket liability. These protections also apply to small business owners, the self-employed, and workers of small businesses who purchase health insurance through the individual market. In addition, insurers offering products in the small group market are now required to set rates using a single risk pool that includes all enrollees across their small group plans in the state. Finally, small businesses can avoid having to meet minimum participation thresholds if they obtain coverage during a November-to-December open enrollment period.

Small businesses now have choices. They can continue to offer their workers the same plan they had before the ACA, unless the issuer made the decision to terminate the plan. Small

businesses can choose to purchase coverage in the traditional small group market or use the Small Business Health Options Program created under the ACA. Small businesses can also help workers purchase coverage through the individual market, including providing premium support through a health reimbursement account following the recent passage of the 21st Century Cures Act. Small businesses can also choose not to offer coverage, as there is no penalty for employers with fewer than 50 full time equivalent employees that do not offer health insurance to their workers. Finally, small business owners and individuals who are self-employed can enroll themselves and their families in individual market coverage without fear they will be denied because of their health status – and some are eligible for financial assistance for premiums and cost sharing or are eligible for Medicaid because of the Medicaid expansion under the ACA.

Small Business Workers and the Self-Insured Have More Access to Coverage

Prior to the ACA, many small business owners and their workers did not have the option to enroll in coverage through the individual market. People were denied coverage because of pre-existing conditions including a history of a cesarean section, a cancer diagnosis, arthritis, or even acne. Those who did receive coverage could have services to treat a pre-existing condition excluded. Sometimes even services to treat an entire body part was excluded from coverage, such as excluding any services related to a limb that that person had previously injured. Premiums were higher for those that insurance companies considered high risk, often making coverage unaffordable. Pregnancy was considered a preexisting condition so women who were pregnant were either unable to get coverage or could only get coverage excluding services related to their pregnancy. Even if a woman was not pregnant at time of enrollment, almost 80 percent of plans in the individual market excluded maternity and an additional 9 percent only covered limited maternity benefits.[9] Twenty percent of people enrolled in the individual market had no coverage for prescription drugs.[10] Mental health and substance use treatment services were also commonly excluded, with 18 percent of people enrolled in individual market

coverage lacking coverage of mental health services and 34 percent lacking coverage of substance use treatment services.[11]

As a result, many people experienced "job lock" – a term for people feeling locked into their job because it is the only source for health insurance.[12] Job lock prevented small businesses that were unable to provide health insurance, or adequate health insurance, from attracting talented workers. It also reduced entrepreneurship, because many remained in jobs solely to retain needed health benefits for themselves or a family member, even though they had dreams of starting their own business.[13] Women planning to start families might not take the risk of giving up employer coverage because maternity benefits were unavailable in the individual market. People with chronic conditions or in the midst of medical treatment were unable to take the risk that they would lose coverage for the services they needed.

Small Business Owners and Their Workers Are Now Able to Access Health Insurance

Evidence shows that small business owners and entrepreneurs are now getting covered because of the ACA – through both the SHOP and individual health insurance marketplaces. Almost 10 percent of small business owners – 1.4 million people - purchased coverage through the individual health insurance marketplace in 2014.[14] With enrollment having risen each year since 2014, even more small business owners likely purchase coverage through the health insurance marketplace today. All of the plans through the marketplace are comprehensive plans that cover essential health benefits. Many small business owners and their employees receive financial assistance through premium tax credits and lower cost sharing. In states that expanded Medicaid, there is a health care safety net for entrepreneurs as they start a new business that is not immediately profitable.

Small businesses are also seeing a reduction in the uninsured rate of their workers. In the decade leading up to the passage of the ACA, the amount of small business workers covered by their employer dropped significantly. The share of small-business workers covered by

employer-based health insurance fell from 43 to 33 percent between 2000 and 2010.[15] As a result, prior to the implementation of the ACA, almost one quarter of employees of small businesses with under 50 workers, were uninsured. In comparison, only 7.6 percent of employees of large firms were uninsured.[16] Within the first year of ACA implementation, by March 2015, the uninsured rate for small business workers fell by 10.8 percentage points. The coverage gains were primarily due to 3.1 million employees newly enrolled in the individual insurance market and 1.7 million newly enrolled in Medicaid.[17]

Small Business Health Costs Are Growing More Slowly

Small businesses are also benefiting from an unprecedented slowdown in health care cost growth since the passage of the ACA. Prior to the implementation of the ACA, small businesses often paid up to 18 percent more than large employers to provide health insurance.[18] In the years leading up the passage of the ACA (2004 to 2010), premiums for family coverage increased by an average 6.0 percent per year for small firms with 3 to 199 employees. While premiums continued to grow after the passage of the ACA, the rate of growth slowed to an average 5.4 percent per year from 2010 to 2016.[19] Based on a large scale survey of employers across the United States, for small businesses with less than 50 employees, the average annual increase in premiums between 2010 and 2015 (the latest year for which data is available) was only 4.0 percent for individual coverage and 4.2 percent for family coverage.[20] Between 2014 and 2015, the increase in average premium was only 1.0 percent for individual coverage and 2.2 percent for family coverage.

Small businesses also benefit from rating protections in the ACA. Before the ACA, a small business could see a large double digit rate increase because one or two workers had high medical costs – such as an HIV diagnosis or a premature baby in the NICU. Such rate increases forced small businesses to decide between financial losses or dropping health coverage for their workers. Small businesses with largely female workforces often paid higher premiums than those with largely male workforces. Some employers were even charged more because of

their industry since insurers adjusted premiums based on the occupation of the employees. Now, insurers can only vary rating in both the individual and small group markets based on age, family size, geography, and tobacco use.

Conclusion

Prior to the implementation of the ACA, the small group health insurance market failed small businesses and their workers. The result was that those who owned and worked for small businesses often went without health insurance. The ACA has improved the market by ending some insurance practices that left people without coverage for important services and protecting small businesses from large premium spikes resulting from their workers' medical claims, while also giving small businesses and their workers more options for coverage. The increased insurance rate among small business workers shows that the ACA is improving access to coverage.

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[1] Claxton G, Rae M, Panchal N, et, al., "Employer Health Benefits Survey 2012," The Kaiser Family Foundation and Health Research and Educational Trust, 2012. Available at: https://kaiserfamilyfoundation.files.wordpress.com/2013/03/8345-employer-health-benefits-annual-survey-full-report-0912.pdf. (accessed February 5, 2017).

[2] Numbers include owners of businesses employing 1 to 24 employees, including the business owner, with income of at least $2,500. Levitt L, Damico A, Claxton G, How Small Business Owners Get Health Insurance, Kaiser Family Foundation Blog, September 28, 2012. Available at: http://kff.org/health-reform/perspective/how-small-business-owners-get-health-insurance/. (accessed February 5, 2017).

[3] Blavin F, Garrett B, Linda B, et al., "Monitoring the Impact of the Affordable Care Act on Small Businesses: Literature Review," Urban Institute, October 2014. Available at: http://www.urban.org/sites/default/files/publication/33696/413273-Monitoring-the-Impact-of-the-Affordable-Care-Act-on-Employers.PDF. (accessed February 4, 2017).

[4] Data collection and analysis by researchers at the Center on Health Insurance Reforms, Georgetown University, Pre-ACA State Maternity Coverage Mandates: Individual and Small Group Markets, Kaiser Family Foundation. Available at: http://kff.org/other/state-indicator/pre-aca-state-maternity-coverage-mandates-individual-and-small-group-markets/?currentTimeframe=0. (accessed February 4, 2017).

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Statement of Women Impacting Public Policy

Submitted to
House Committee on Small Business

"Reimagining the Healthcare Marketplace for America's Small Business"

February 7, 2017

Women Impacting Public Policy (WIPP), a national nonpartisan public policy organization advocating on behalf of women entrepreneurs, is pleased to submit testimony on the important topic of the future of healthcare.

First, we commend the Committee for holding this hearing. WIPP appreciates the bipartisan efforts of this Committee to advance the agenda of women entrepreneurs, including accessing capital, accessing federal markets, and providing a business-friendly environment.

This hearing touches on an issue of great importance to our members: affordable and accessible healthcare. Access to health insurance plans and the ability to maintain coverage is just as important as being able to afford the coverage. Since offering health insurance remains important to attracting and retaining employees, Congressional action on this topic is essential to the continued growth of our nation's biggest job creators—small businesses.

While no single legislative path has been outlined for improvements to healthcare for small businesses, we urge Congress to ensure there is a workable plan for the small group market. Prior to the ACA, 60 percent of all uninsured Americans were employed by a small business or were a dependent of someone employed by a small business.[1] As of 2015, just 20 percent of those employed by a small business were uninsured.[2] It would be a travesty to return to the challenges of obtaining insurance in the past.

The Importance of a Pooling Mechanism

Ensuring there is a strong small business health insurance marketplace should be partisan—small business owners employ far too many Americans to leave these important decisions to partisanship. Women entrepreneurs are focused on results and success. Our interest is in a small group market, which gives small business owners a choice of plans at an affordable price.

The primary issue for small businesses is maintaining their ability to band together to purchase health insurance. Prior to the ACA, which established SHOP exchanges giving small businesses the ability to pool their buying power, employers with a small number of employees often lacked coverage and were subject to astronomical price increases if one employee suffered an illness.[3] Furthermore, there were not many options for coverage, especially in smaller states with lower populations. Time after time, WIPP members told us that their insurance simply was dropped

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[1] WIPP Economic Blueprint: 2009 Special Inaugural Edition at http://c.ymcdn.com/sites/www.wipp.org/resource/resmgr/Docs/EconomicBlueprintInauguralEd.pdf. January 2009.

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without explanation, leaving their employees to fend for themselves. Many small business groups, including WIPP, told Congress that the system before the ACA was unworkable and pleaded for a remedy.

With respect to healthcare reform, Congress, in the past, considered several ways to structure a pooling mechanism for the small group market. Prior to the ACA, WIPP supported both the concept of Association Health Plans (AHPs) and bipartisan legislation sponsored by Senators Enzi and Nelson, which proposed Small Business Health Plans. These solutions would have allowed small businesses to pool their buying power through associations to purchase healthcare across state lines on regional or a national basis.[4]

The ACA established the SHOP exchanges which pool small businesses but only on a statewide basis. In our view, Congress should revisit the ability to shop for insurance across state lines. While we supported the mechanism of state exchanges contained in the ACA, we urge the Congress to consider structuring the pools to maximize small business participation by adopting this change.

The only solution for small businesses and their employees, as we see it, is to arrive at a practical, not partisan, mechanism for pooling. We do not claim to be experts on how to structure these pools, but we are relying on Congress and the Department of Health and Human Services to create and implement a mechanism that works.

Affordable Costs

Our members often cite concerns about rising premiums in today's SHOP exchanges. If they continue to rise, insurance will become a luxury for small businesses instead of an expected benefit. Health Reimbursement Arrangements (HRAs) are a practical solution to hefty costs for employer-provided health insurance. These allow employees to shop in the individual market for plans that best fit their needs and budget. The business reimburses employees for their partial or entire premiums. Prior to the ACA, this was a popular method used by small businesses for which company-wide insurance plans were prohibitively expensive. The ACA, however, and its interpretation by the IRS, created stiff penalties (up to $500,000) for businesses using HRAs.

Legislation passed in December 2016 that reversed that interpretation, making clear that such plans are acceptable, penalty free.[5] Employers, by law, can now offer up to $4,950 per employee per year ($10,000 for employees with dependents) and employees must show they used funds on medical purposes, including premiums. Companies must have 50 or fewer employees and offer the benefit to all employees to be eligible.

WIPP strongly urges the Committee to work with the U.S. Department of Health and Human Services (HHS) and the IRS to expedite the reinstatement of HRAs as soon as possible. As we understand it, the regulatory process needs to be completed for this important change to go into effect. While we understand the emphasis on freezing regulations, in this case, it will delay implementation.

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[4] Health Insurance Marketplace Modernization Act of 2006. S. 1955, 109th Cong. (2005).
[5] 21st Century Cures Act. H.R. 6, 114th Cong. (2016).

WIPP also requests that the committee work with HHS and the IRS to provide guidance documents, not only for the benefit of federal officials, but for small business owners so they have a clear understanding of the options before them. WIPP has long advocated on this issue and is prepared to assist and work with the Committee to make the reimplementation of HRAs an expeditious process.

Change 30-Hour Work Week to 40-Hour Work Week

Under the ACA, full-time workers, for eligibility purposes, are defined as those who work at least 30 hours per week. WIPP previously supported the Forty Hours is Full-time Act, bipartisan legislation cosponsored by Senators Collins and Donnelly amending the 30-hour requirement to 40 hours.[6] Changing the definition of a full-time employee (FTE) back to 40 hours per week would eliminate the incentive for employers to reduce workers' hours, as most employees working 40-hour weeks would already receive health insurance.

As is the case with many government definitions, compliance requirements vary with different laws. In the interest of simplifying compliance and encouraging employers to hire as many full-time workers as possible, WIPP recommends changing this definition from 30 to 40 hours per week.

Conclusion

WIPP recognizes that changing the healthcare system is difficult at best. As our testimony states, the ACA was not perfect. We cite both the definition of the work week and disallowing HRAs as examples of changes necessary to the existing law. On the other hand, women entrepreneurs cannot afford to go back to pre-ACA days when small businesses were largely left out of the healthcare marketplace. Although the Congress is poised to repeal the ACA, a repeal without replacing the state exchanges will throw the small group market into chaos. Having a mechanism in place to allow businesses to pool their buying power to purchase health plans is critical to providing continuity for employees who depend on small businesses' ability to provide health insurance. The ACA did not allow for exchanges to go across state lines, but we urge the Congress to rethink that limitation. We ask the Congress in its deliberations of repealing and replacing the ACA, to keep the challenges of the marketplace for small businesses in mind. It is time to adopt a practical, nonpartisan approach. Women entrepreneurs depend on it.

[6] Forty Hours is Full Time Act of 2015. S. 30, 144th Cong. (2015).

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