

## **United States Senate - Committee on Finance**

### **“Health Care Coverage for Small Businesses: Challenges and Opportunities”**

#### **Statement of Joseph E. Rossmann, Vice President of Fringe Benefits, Associated Builders and Contractors, Inc.**

#### **On behalf of the Small Business Health Plan Coalition**

**April 6, 2006**

#### **Introduction**

Chairman Grassley, Ranking Member Baucus and members of the Senate Finance Committee, thank you for holding this very important hearing which will address the problems that small businesses face in providing quality health insurance for themselves and their employees.

My name is Joseph E. Rossmann, and I am Vice President of Fringe Benefits for Associated Builders and Contractors (ABC). ABC is a national trade association representing over 23,000 general contractors, subcontractors, material suppliers, and related firms from across the country and from all specialties in the construction industry in a network of 79 chapters. Our diverse membership is bound by a shared commitment to the merit shop philosophy of awarding construction contracts to the lowest responsible bidder, regardless of labor affiliation, through open and competitive bidding. With more than 85 percent of construction today performed by merit shop contractors, ABC is proud to be their voice.

I am testifying before you today on behalf of the Small Business Health Plan (SBHP) Coalition (membership list attached), which consists of over 180 national and regional organizations that support S. 1955, the Health Insurance Marketplace Modernization Affordability Act of 2005 sponsored by Senators Michael Enzi (R-WY), Ben Nelson (D-NE) and Conrad Burns (R-MT). The SBHP Coalition represents over 12 million employers and over 80 million small business workers throughout America. I also am secretary and past president of The Association Healthcare Coalition, which consists of bona fide trade and professional associations that currently operate association-sponsored health plans, or have done so in the past.

Mr. Chairman, today's hearing is extremely timely. The problem of small business workers not having access to affordable health benefits is reaching epidemic proportions across the nation. Since over 60 percent of all uninsured Americans are employed by a small business, or are dependents thereof, the current trend of skyrocketing premium increases threatens to greatly expand the number of uninsured Americans, which now stands at approximately 45 million.

Indeed, massive premium increases of 30 percent and higher, and/or benefit reductions, are typical of what small businesses throughout the nation are experiencing today. Clearly, current initiatives aimed at expanding access to affordable health care are not working. As such, Congress must take action to address this critical issue this year to prevent thousands of small business workers from losing their health benefits, and to expand coverage to millions of uninsured Americans.

Our coalition strongly urges Congress to enact the Health Insurance Marketplace Modernization Affordability Act of 2005 (S. 1955), bipartisan legislation which would bring much needed competition to the small group health insurance market. Congress should approve the SBHP bill this year to expand access to health benefits for small businesses and the self-employed.

### ***The Need for Small Business Health Plans***

The Health Insurance Marketplace Modernization Affordability Act of 2005 would help achieve the goal of providing Fortune 500-style health benefits to working families employed by small businesses. Through this legislation, SBHPs will empower our nation's entrepreneurs with the similar tools that large employers and unions currently enjoy under the Employee Retirement Income Security Act (ERISA) making health coverage affordable for working families. These tools are:

Economies of scale and increased bargaining power for small employers;

Administrative savings from having one uniform set of rules;

Health benefit design flexibility;

Increased competition in health insurance markets.

SBHPs can reduce health insurance costs by 15–20 percent by allowing small businesses to join together nationwide to obtain the same economies of scale, bargaining clout, and administrative efficiencies now available to employees in large employer plans. New coverage options will promote greater competition and more choices in health insurance markets.

The Small Business Health Plan bill is the most viable proposal currently before the U.S. Senate, and will put small business workers on a level playing field with employees of large corporations. Right now, small business workers are second-class citizens when it comes to health benefits. On average, workers in firms with less than 10 employees pay 17 percent more for a given health benefit than workers employed in a large company. This is because small businesses don't have access to the type of economies of scale, bargaining power and administrative savings that corporate plans now have. The SBHP legislation will help rectify this inequity by leveling the playing field between workers in small and large businesses.

We estimate that SBHPs, through the enactment of S. 1955, can reduce the cost of health benefits by 15 – 20 percent for small business workers. We know this because health plans administered by associations have already proven they can deliver savings compared with the cost of small employers purchasing directly from an insurance company.

For example, the health plan sponsored by ABC for nearly 45 years, which operated nationally, had total administrative expenses of 13 ½ cents (13.5 percent) for every dollar of premium. These costs included all marketing, administration, insurance company risk, claim payment expenses and state premium taxes. Alternatively, small employers who purchase coverage directly from an insurance company can experience total expenses of 25 to 35 cents (25 – 35 percent) for every dollar of premium.

**Moreover, any profit generated by the health plan in a given year does not go to the stockholders of the insurance company, but rather stays in the plan and inures to the benefit of participants by keeping costs lower in the future.**

ABC successfully operated its health plan through the ABC Insurance Trust. Because of the overwhelming costs in trying to comply with overlapping, inconsistent and often incompatible state laws, our health insurance carrier was forced to drop their health care coverage. Today, ABC continues to provide a full array of insurance benefits, but has been forced to work with multiple health insurance providers. ABC now serves as a broker, providing our membership with the most competitive carriers and rates in their area. ABC is a perfect example of how a trade or professional association, serving as a purchasing pool for employers, can have a significant impact upon the small employer health insurance market in both price and design.

The ABC Insurance Trust was founded in 1957 by five contractors who could not afford group health insurance for their employees in the open market due to their size. Until 1999, the ABC Insurance Trust served as a voluntary purchasing pool for members of the association. An important component of the plan's long-term success was that it was guided by contractor members who serve as trustees and fiduciaries under the plan. As participants in the program, they acted in the best interest of their fellow members and their employees. Participation by the board of trustees is a key ingredient in aggregating the voice of employers to negotiate price and coverage with insurance carriers and other providers.

ABC's health plan program offered HMOs, PPOs, and traditional health insurance plans. All of ABC's plans provided wellness benefits with coverage for physicals and annual check ups. ABC continues to offer dental coverage, group life insurance, and disability programs to serve members of the association. A majority of those covered work for small construction firms with 10-20 employees.

ABC's Insurance Trust operates in full compliance with ERISA reporting requirements, with the Consolidated Omnibus Reconciliation Act (COBRA) of 1985 and with the Health Insurance Portability and Accountability Act (HIPAA) of 1996. Complying with the federal HIPAA legislation requires ABC and other associations to provide open access to all members and provide credit for prior coverage. In fact, health plans administered by associations are specifically referenced and defined in the HIPAA legislation and are required to take all members under HIPAA guidelines.

The inability of states to provide a regulatory environment in which associations can serve as a source of affordable health benefits for small business workers is a real tragedy. Bona fide trade associations have an established infrastructure that allows them to communicate with members more effectively because of their pre-established relationships. This unique structure

allows associations to add value to their members and workers that other organizations or purchasing pools cannot duplicate. SBHPs are capable of offering valuable options by providing additional benefits over and above what many insurance companies provide today. Associations can successfully tailor the products and services specifically for the needs of their members.

Workers in small businesses desperately need a viable mechanism to band together to increase their bargaining clout and create more competition in health insurance markets. This is true more so today than ever before due to the huge wave of consolidation among health insurance companies and hospitals. Recent mergers of health insurance companies have reduced competition and alternatives for small employers who seek access to quality and affordable health insurance. In fact, a survey of state insurance commissioners conducted by the General Accounting Office (GAO) at the request of Senator Kit Bond (R-MO) found disturbing levels of concentration on the small group health insurance markets, with market shares of nearly 90 percent among the five largest companies in 7 states.

Dr. James Robinson, Professor of Health Economics at the University of California, Berkeley, calculates that the top three health insurance companies control two-thirds or more of the health care business in all but 14 states. (Robinson, James C., Consolidation and the Transformation of Competition in Health Insurance, Health Affairs, Vol. 23, No. 6 (Nov. /Dec. 2004)). Robinson compares those numbers with 2000-2003 financial results of the top five national insurance firms. His research shows a decline in the percent of each premium dollar that goes to pay medical claims, while insurance companies have enjoyed double digit growth in premiums, earnings and equity share prices. Ultimately, Robinson contends that the health insurance industry will only be revitalized through product innovation and further competition.

Today, there is a great need to bring more competition back into the system rather than continually reducing it. By providing more options and choices for small employers, the SBHP legislation will inject greater competition in health insurance markets, thus bringing down premiums and expanding health plan benefits and plan options to more small business workers and their families.

### **Rebuttal of Criticism of SBHP Legislation**

I would like to address some of the criticisms being raised about S.1955, the Health Insurance Marketplace Modernization Affordability Act of 2005. The main criticism being raised by opponents of this legislation is that SBHPs will remove important, hard-fought patient protections on the state level. But the assumptions under which this argument is made do not hold up to scrutiny.

#### ***Opponents claim that SBHPs will offer inadequate benefits.***

Non-profit trade associations, such as Associated Builders and Contractors, exist to serve their members. If they attempt to not offer attractive benefit options, their mission is fundamentally compromised and they will not be able to compete in the marketplace. Small employers must compete with large employers for their work force. Because of this, small employers want to offer the same high quality comprehensive benefits that large employers make available to their employees today.

ABC's Insurance Trust provided comprehensive benefits for members and their employees for over 48 years. The same comprehensive benefits and coverages that were available to members in the Commonwealth of Virginia for example, were also available to ABC members in Iowa, Montana and Wyoming. Benefits for insured members are not reduced because of lower state requirements. The same comprehensive coverages were available nationwide.

It is important to remember that SBHPs will be an alternative for ABC members to select from, not a mandate. Employers have the opportunity to choose between their association plan and other products available direct from insurance carriers. Associations will compete with insurance carriers for their member's business so the SBHP must offer high quality options, the same as insurance carriers offer, if they wish to earn their members participation in the plan.

***Opponents claim that SBHPs would cherry pick the healthiest employers and employees.***

Associations, Chambers of Commerce and franchisees can not condition membership in their respective organization based upon health status. The Enzi-Nelson-Burns legislation mandates that SBHPs must be in full compliance with federal HIPAA requirements. In addition, the small business health plan (SBHP) sponsored by one of the above entities must make all coverages available to all members of the organization. Rating of employer groups is on equal footing with insurance carriers.

Opponents' allegations about adverse selection rest on the **mistaken assumption** that small businesses will offer only "bare bones" benefit packages through SBHPs. There is broad agreement that "bare bones" plans, wherever they have been tried, have failed due to lack of demand. This is because small business workers want Fortune-500 style benefits like those enjoyed by workers in large companies. Also, small businesses **must** offer benefit options comparable to those offered by large companies if they are going to attract and retain quality employees.

Adverse selection that **currently exists** in state markets will be greatly reduced when younger, healthier workers employed in small businesses who are now uninsured are able to obtain coverage that is affordable

***Opponents claim that Small Business Health Plans will not offer savings.***

The savings in SBHPs comes from the administrative efficiencies and marketing economies inherit within the associations' relationship with its members. A recent study conducted by Mercer Oliver Wyman Actuarial Consulting, Inc. (Mercer) on behalf of the National Small Business Association (NSBA) indicates the SBHPs will provide a 12 percent overall cost savings for members. ABC's actual results indicate a savings of close to 20 percent over the small employer market as offered by insurance carriers. In addition, SBHPs must offer high quality benefits to earn the participation of their members.

***Opponents claim that SBHPs will have an unfair advantage over insurance carriers.***

Both insurance carriers and SBHPs will be on equal footing in products and rating methods for the plans made available for small employers. Under the Health Insurance Marketplace Modernization Affordability Act of 2005, only fully insured plans are available which provide

for continued state insurance commissioner oversight of both plans and insurance carriers. All consumer protections for fully insured plans are in place for employees and their dependents.

### **Conclusion**

In conclusion, the 12 million employers and more than 80 million employees represented by the SBHP Coalition strongly urge the Senate to pass the Health Insurance Marketplace Modernization Affordability Act of 2005. Small Business Health Plans provide affordable health coverage to small businesses, and extend coverage to uninsured people. While SBHPs are not the only solution to America's health care crisis, SBHPs are an **essential** component of the solution. SBHPs are important for many working families employed in small businesses who otherwise could not afford coverage. Passage of the Health Insurance Marketplace Modernization Affordability Act of 2005 will ensure that employees of small businesses receive the affordable, high quality health care coverage they both need and deserve.

I appreciate this opportunity to testify before this Committee on an issue of vital importance to our membership and small business owners across the country. We look forward to continuing a constructive dialogue on how to increase access to affordable and competitive health insurance for small businesses. I would be happy to answer any of the questions the Committee may have.

## **Organizations Supporting Small Business Health Plans**

The following organizations, representing over **12 million employers and 80 million workers**, strongly support **S. 1955, the Health Insurance Marketplace Modernization Affordability Act of 2005**, bipartisan legislation to strengthen and expand Small Business Health Plans (SBHPs). This legislation will provide workers employed in small businesses and the self-employed gain access to Fortune 500-style health benefits now enjoyed by workers in corporate and labor union health plans.

Adhesive and Sealant Council  
Air Conditioning Contractors of America  
American Alliance of Service Providers  
American Apparel & Footwear Association  
American Association of Advertising Agencies  
American Association of Engineering Societies  
American Association of Franchisees and Dealers  
American Association of Small Property Owners  
ABL – America’s Wine, Beer, and Spirit Retailers  
American Bakers Association  
American Concrete Pumping Association  
American Council of Engineering Companies  
American Disc Jockey Association  
American Electronics Association  
American Foundry Society  
American Furniture Manufacturers Association  
American Institute of Chemical Engineers  
American International Automobile Dealers Association  
American Hotel and Lodging Association  
American Lighting Association  
American Nursery and Landscape Association  
American Rental Association  
American Road and Transportation Builders Association  
American Small Businesses Association  
American Society of Association Executives  
American Society of Civil Engineers  
American Society of Home Inspectors  
American Society of Mechanical Engineers, Board on Member Interests & Development  
American Staffing Association  
American Textile Machinery Association  
American Veterinary Medical Association  
American Wholesale Marketers Association  
Americans for Tax Reform  
AOMALLIANCE  
Archery Trade Association  
Associated Builders and Contractors  
Associated General Contractors of America  
Associated Prevailing Wage Contractors, Inc.

Association for Manufacturing Technology  
 Association of California Water Agencies  
 Association of Equipment Manufacturers  
 Association of Independent Maryland Schools  
 Association of Ship Brokers and Agents  
 Association of Suppliers to the Paper Industry  
 Automotive Aftermarket Industry Association  
 Automotive Aftermarket Association Southeast  
 Automotive Service Association  
 Automotive Undercar Trade Organization  
 Automotive Wholesalers Association of New England  
 Automotive Parts & Services Association  
 Bowling Proprietors' Association of America  
 California Motor Car Dealers Association  
 California Society of CPAs  
 California/Nevada Automotive Wholesalers Association  
 Center for New Black Leadership  
 Central Service Association  
 Chesapeake Automotive Business Association  
 Cleveland Automobile Dealers Association  
 Club Managers Association of America  
 Christian Schools International  
 Coca Cola Bottlers Association  
 Communicating for Agriculture  
 Construction Management Association of America  
 Consumer Specialty Products Association  
 Deep South Equipment Dealers Association  
 Electronics Representatives Association Insurance Trust  
 Far West Equipment Dealers Association  
 Farm Equipment Manufacturers Association  
 Financial Executives International  
 Financial Planning Association  
 Food Marketing Institute  
 GrassRoots Impact  
 Hearth, Patio and Barbecue Association  
 Hispanic Business Roundtable  
 Independent Electrical Contractors  
 Independent Office Products & Furniture Dealers Association  
 Independent Stationers, Inc.  
 Institute of Electrical and Electronics Engineers - United States of America  
 International Association of Professional Event Photographers  
 International Foodservice Distributors Association  
 International Franchise Association  
 International Housewares Association  
 Iowa Automobile Dealers Association  
 Iowa-Nebraska Equipment Dealers Association  
 The Latino Coalition  
 Mason Contractors Association  
 Material Handling Equipment Distributors Association (MHEDA)



Metal Manufacturers' Education and Training Alliance  
Midwest Automotive Industry Association  
Midwest Equipment Dealers Association  
Motor & Equipment Manufacturers Association  
NAMM, the International Music Products Association  
National Association for the Self-Employed  
National Association of Chemical Distributors  
National Association of Community Health Centers  
National Association of Computer Consultant Businesses  
National Association of Convenience Stores  
National Association of Home Builders  
National Association of Manufacturers  
National Association of Plumbing-Heating-Cooling Contractors  
National Association of Realtors  
National Association of Theatre Owners  
National Association of Wholesaler-Distributors  
National Association of Women Business Owners  
National Automobile Dealers Association  
National Black Chamber of Commerce  
National Burglar and Fire Alarm Association  
National Cattlemen's Beef Association  
National Club Association  
National Concrete Masonry Association  
National Council of Agricultural Employers  
National Federation of Independent Business  
National Franchise Association  
National Funeral Directors Association  
National Lumber and Building Material Dealers Association  
National Newspaper Association  
National Office Products Alliance  
National Paint and Coatings Association  
National Portable Storage Association  
National Precast Concrete Association  
National Rental Association  
National Retail Federation  
National Restaurant Association  
National Roofing Contractors Association  
National Spa and Pool Institute  
National Society of Accountants  
National Society of Professional Engineers  
National Sporting Goods Association  
National Systems Contractors Association  
National Tile Contractors Association  
National Tooling & Machining Association  
National Utility Contractors Association  
Nebraska New Car and Truck Dealers Association  
New Mexico Automotive Parts and Service Association  
New York State Automotive Aftermarket Association  
North American Die Casting Association

North American Equipment Dealers Association  
 North American Retail Dealers Association  
 North Dakota Automobile and Implement Dealers Association  
 Northeastern Retail Lumber Association  
 Office Furniture Dealers Alliance  
 Ohio Valley Automotive Aftermarket Association  
 Outdoor Industry Association  
 Piano Technicians Guild  
 Precision Machine Products Association  
 Precision Metalforming Association  
 Printing Industries of America  
 Printing Industries of Maryland  
 Process Equipment Manufacturers' Association  
 Professional Detailing Technicians Association  
 Professional Golfers' Association of America  
 Professional Photographers of America  
 Retailers Bakery Association  
 Service Station Dealers of America and Allied Trades  
 Self Insurance Institute of America  
 Small Business Survival Committee  
 Society of American Florists  
 Society of the Plastics Industry  
 Society of Professional Benefit Administrators  
 Southern Equipment Dealers Association  
 Southeastern Equipment Dealers Association  
 Southeastern Farm Equipment Dealers Association  
 Southwestern Association  
 Specialty Equipment Market Association (SEMA)  
 Snack Food Association  
 Student Photographic Society  
 Textile Rental Services Association of America  
 The Association Healthcare Coalition  
 Timber Operators Council Management Services  
 Timber Products Manufacturers Association  
 Tire Industry Association  
 United States Federation of Small Businesses, Inc.  
 U.S. Chamber of Commerce  
 U.S. Hispanic Chamber of Commerce  
 U.S. Pan Asian America Chamber of Commerce  
 Vermont Automobile Dealers Association  
 Virginia Bankers Association  
 Washington Area New Automobile Dealers Association  
 Western Growers Association  
 Women Impacting Public Policy  
 Wisconsin Automobile & Truck Dealers Association  
 World Wide Insurance Services, Inc.