



National Federation of Independent Business

Statement on Healthcare Reform

Senate Finance Committee

May 5, 2009

Healthcare Reform
Roundtable on "Coverage"

Our current system of health insurance and healthcare is financially unsustainable and threatens the health and financial security of the American people. Small business owners and their employees are especially vulnerable to the weaknesses of our current system. More than 80.6 percent of small business owners say accessing affordable healthcare for themselves and their employees is a challenge.¹ The National Federation of Independent Business (NFIB) supports comprehensive healthcare reform that addresses the needs of small employers, their employees and the self-employed. Any effort to reform the system must have at its foundation a strategy to control costs and ensure meaningful insurance market reform.

It is important to note the facts about why small business is key in this discussion. Small firms represent 99.7 percent of all employers.² Small business produces roughly half of the private Gross Domestic Product (GDP)³ and creates, on average, about two-thirds of net new jobs annually.⁴ Small employers care about access to healthcare coverage for themselves and their workers and provide coverage to nearly 68 million people.⁵ The Medical Expenditure Panel Survey (MEPS) reports show that, on average, small employers who offer health insurance coverage pay more in employer contributions than large firms.⁶

However, data shows that as costs continue to soar, employers and employees are struggling to find ways to afford coverage. Small employers are having the most difficulty offering and maintaining health insurance for their employees. Since 1999 health insurance premiums for small firms have increased by 113 percent.⁷ The Kaiser Family Foundation reports employer-based coverage has dropped six percent from 2000-2008.⁸ Clearly cost has played a key factor in this downturn.

When premium costs rise as fast “as much” for small groups, employers devote enormous resources to shopping for better deals. But changing plans has both good and bad results. Good because the new plan may provide care at a lower cost to the employer and to the employees. Bad because the new plan may force employees to change doctors, fill out all new underwriting forms and receive poorer service in some respects. Looking forward, a more stable employer-insurer relationship would be desirable. This would mean less volatile, more stable premiums and less “churn.” Today, small employers feel helpless, with little ability to impact the premiums they pay, to take advantage of the law of large numbers, to negotiate plan characteristics, and to purchase wellness plans. For,

¹ NFIB National Survey (February 15-19, 2008).

² U.S. Small Business Administration, Small Business Share of Economic Growth, 2001.

³ Joel Popkin and Company, Small Business Share of Economic Growth, 2001, Office of Advocacy, U.S. Small Business Administration.

⁴ U.S. Small Business Administration.

⁵ EBRI Report, Employee Benefit Research Institute Estimates from the March 2005 to March 2008 Current Population Surveys, March 2008.

⁶ Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2006 Medical Expenditure Panel Survey-Insurance Component.

⁷⁻⁸ Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2008.

say, an eight-employee catering shop, these qualities that large firms take for granted are out of reach.

Whatever its faults, however, the nexus between employer and health insurance is deeply entrenched in the American healthcare system and satisfies the wishes of a great number of firms and employees. The employer role remains deeply integrated in the system and will remain a necessary piece in transforming and enhancing employer-sponsored insurance. Employer-sponsored insurance works reasonably well for large firms – very well for some – but it can be disastrous for small business owners and employees. Our heavy reliance on employers as a central provider of insurance is especially problematic for those who have no full-time employees (the unemployed, self-employed, part-timers or early retirees) and those whose employers cannot afford to provide insurance. Employers of all sizes need flexibility to choose what works for their workforce. What works for one well-established restaurant might not for a start-up coffee shop. Employers want to and will continue to play a role in the system. Steps should be taken to both ease costs for offering firms and to incentivize non-offering firms.

Empowering small business employees to decide what is best for themselves and for their families should be a top priority. Recent NFIB-sponsored research suggests that employees are better off choosing their own insurance plans rather than leaving the decision to their employers.⁹ No matter how smart and well-intentioned the employer, the employee has a better grasp of his or her family's needs and desires. The best approach is to give individuals the option to use employer contribution dollars to pick the plans of their choice. Many employers may want to retain the traditional method of purchasing coverage through local agents or brokers, and that choice should remain available. By the same token, individuals, including the newly self-employed or early-retiree, must have a vibrant and secure marketplace in which to purchase coverage. Transitioning to parity between the employer-based market and the individual market is a must-do for all these reasons.

NFIB strongly supports policy reforms that put affordable coverage within reach of all employees (and non-employees). Any successful reform must allow people to balance the competing goals of access to quality care, affordability, predictability, and consumer choice. Below are the key components that can help attain this goal.

Delivery System Reform

Reducing long-term costs is essential to maintaining the quality of healthcare and to expanding its reach to those currently lacking coverage. Lower costs require us to fundamentally alter the delivery systems and the incentives that drive them. Our medical education system reflects early 20th Century realities; the result is an excess of specialists and a shortage of primary care physicians, nurse practitioners, and other physician extenders. Our modes of treatment are driven by inflexible, mechanical reimbursement systems designed nearly half a century ago and only moderately tweaked since then. The result is uncoordinated providers prescribing fragmentary care, rather than coordinated

⁹ Rassenti, Stephen and Carl Johnston, Health Insurance Reform in an Experimental Market, March 2009.

teams focusing as a unit on the good of the patient. Alternative models like those practiced by Geisinger and Mayo suggest possible approaches, though it is likely that real savings will come from, as yet, “undreamed” of models of care. We can see the beginnings of such reforms in programs already on the table: medical homes, outcome-based compensation, health information technology initiatives and alternative provider compensation schemes. Any lasting reform must permit and encourage such delivery system experimentation, because as we have seen from the industries like computers and telecommunications, the greatest advances will come from the most unexpected places.

Enact reforms enabling all individuals to obtain quality, affordable health insurance

Getting everyone into the system is a necessary step toward achieving the goal of affordable quality coverage for all. Addressing the affordability of health insurance coverage must be done first to achieve this goal. There should be a parallel commitment to identifying and enrolling current eligibles in the programs for which they qualify.

Provide advanceable refundable credits or other subsidies for low-income Americans

All Americans, regardless of income, need access to quality affordable health insurance. This requires some form of assistance for those unable to afford such coverage. Steps should be taken to ensure people wanting private coverage can easily access all options available to them.

Guaranteed issue in the individual market

In today’s individual and small group market, individuals make choices about where to get their healthcare coverage. Having guaranteed issue in the group market and not in the individual market creates perverse incentives. For example, if an individual is searching for employment and happens to have a health problem, chances are that he will look for an employer offering group insurance. This is one manifestation of job lock – where one’s employment decision is made on the basis of health insurance, rather than on the qualities of the job itself. Research by Gruber and Madrian shows how employer-provided health insurance plays a significant role in decisions on job change.⁹ Ensuring access to the individual market will go a long way to level the playing field for health insurance purchasers in all of the different marketplaces where they purchase policies.

Implement national standards on rating practices for the individual and small group market. Health status rating should be prohibited in the individual and small group market

National rating rules are long overdue for the individual and small group market. Currently, individuals in most states can either be denied coverage based on health status (rating) or can be priced out of the marketplace due to an illness. Under small group law in most states, the onset of illness in one enrollee can push the business’s rates up by 50 percent at renewal. In both scenarios, people become uninsurable, they lose coverage due to cost, or the employer is hit with an excessive rate increase. Reformed rating will provide better parity between two marketplaces that are frequently visited by individuals

and small group lives. While certain rating characteristics should be set nationally, states should retain significant discretion over some specifics, such as the width of rating bands.

Establish state-wide or national health insurance exchanges for individuals and small employers that allow individual choice of coverage options on a pre-tax basis

The current individual market makes it difficult for insurers to reach purchasers and makes it difficult for purchasers to rationally assess options. Today's small group market similarly limits choices by employers and employees. Employers are hamstrung by participation rate requirements. Shopping for policies excessively distracts them from running their businesses. And employees generally have only one employer-chosen policy available. Health insurance exchanges can reduce some of these shortcomings by serving as a clearinghouse of options for individuals, employers, and employees. An employer can voluntarily designate the exchange as its employer group "plan" for employees. This arrangement qualifies as an employer-sponsored plan for purposes of federal law, allowing employees to purchase coverage of their choice through the exchange on a pre-tax basis.

Make it permissible for states to enter into voluntary multi-state exchanges

GAO recently released its third study focused on marketplace concentration. The report confirmed a marked increase in the concentration in state markets. The report found that the five largest carriers in the small group market, when combined, represented at least three-quarters of the market in 34 of the 39 states responding to the survey, and they represent 90 percent or more in 23 of these states.¹⁰ Allowing states to have the option to combine efforts in purchasing more affordable, quality coverage should be available as an option. Small states like Maine, Montana or Wyoming may see merit in combining efforts to increase the size of their pool and to attract more competition in the marketplace.

Administrative cost savings

Insurers must streamline the process of enrolling in an insurance plan or changing plans. Today's administrative inefficiencies render this process complicated, time-consuming and excessively expensive. Most of these inefficiencies lay at the state level. Congress should work with the states to implement models that promote streamlined regulatory structures.

¹⁰ GAO, Private Health Insurance: 2008 Survey Results on Number and Market Share of Carriers in the Small Group Health Insurance Market.

Create greater portability of coverage

People should be able to move from one job to another, between a job and no job, and from state to state without losing insurance coverage or encountering excessive cost increases, whether costs are borne by the individual or by an employer. In part, this goal can be met through more affordable, transparent policies and lower administrative costs. The goal is an insurance market in which subscribers experience relatively seamless transition when moving between group and non-group policies.

Tax equity for individuals and the self-employed

Tax laws should not push individuals into employer-provided or government-provided insurance programs and hobble the market for individually purchased policies. Tax laws riddle the health insurance market with inefficiencies. An employer who buys insurance for employees can write off the cost on its taxes. But if employees wish to purchase different policies on their own, they receive no tax benefit. Individuals should be allowed to utilize pre-tax dollars to purchase the health insurance policy of their choice. The self-employed should also have equal tax treatment for purchase of health insurance.

Roadblocks to reform

Some reform ideas may sound appealing but, in fact, would have severe negative effects both on healthcare markets and on the economy in general. For example, employer mandates (with minimum contribution requirements), or equivalent pay-or-play requirements or payroll taxes, are bad for small employers, bad for low-income workers, and bad for the economy. They adversely affect small employers by raising payroll costs, eroding competitive positions, and increasing start-up costs, making it particularly difficult for firms operating on small margins. Employer mandates adversely affect the low-income employees because they result in lost employment, depressed wages, and lost work hours. They adversely affect the economy because they discourage production – often in firms with the most vulnerable employees and employers. Recent NFIB research data shows an employer mandate would cause the economy to lose over 1.6 million jobs.¹¹ Overall, mandates are bad for any size employer but this research shows small firms would be most adversely affected by the mandate and account for approximately 66 percent of all jobs lost.¹²

Any successful reform must create a marketplace that works for all purchasers. Building on the strengths of the current system while ensuring new competitive marketplaces to purchase coverage will truly transform the system for the better. Getting overall healthcare costs down needs to remain a major priority in this reform effort. Balancing these two goals will go a long way toward enabling everyone to secure quality affordable coverage.

¹¹⁻¹² Chow, Michael and Bruce Phillips, Small Business Effects of a National Employer Healthcare Mandate, NFIB, January 2009.