

Small Business and Healthcare Reform (5/28/09)

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Address to the American Benefits Council

I'm Bob Graboyes, Senior Healthcare Advisor at the National Federation of Independent Business. With 350,000 members nationwide, NFIB is the voice of small business in America. For decades, our members have told us that healthcare is their most serious problem, distracting them from what they do best -- earning a living and creating most of the country's new jobs. For this reason, healthcare reform is NFIB's number one priority.

We appreciate the eloquent, admirable statement that the American Benefits Council sent to Senators Baucus and Grassley. NFIB could comfortably adopt verbatim many of the sentiments you expressed. We especially appreciate your clear and repeated comments that health insurance is an especially tough obstacle course for small businesses and their employees.

Let me begin by rattling off a list of complaints:

- **Costs:** Small business healthcare costs are sky-high, rising, and unpredictable. Small groups pay, on average, 18 percent more than large groups do for equivalent coverage, and small-firm costs have risen 119 percent since 1999. For many small firms and for many of their employees, costs put health insurance beyond reach.
- **Uninsurance:** A majority of America's uninsured are in families headed by a small business owner or employee.
- **Market inefficiency:** Small group insurance markets are inefficient and impose high search and administrative costs on the firms and their employees. Most of our members have no human resources departments, no benefits counselors, no insurance negotiators, no onsite gymnasiums, and most of all, no special expertise in healthcare or health insurance.
- **Fragmentary information:** Information is hard to come by and difficult to compare, making small businesses overly dependent on the advice of brokers and dealers.
- **Lack of competition:** Firms often face a marketplace with very few carriers. It is generally impossible for a small firm to offer more than one policy to its employees -- thus forcing dissimilar people into one-size-fits-all policies.
- **Inadequate pooling:** Small groups often comprise small, unstable pools. Unlike self-insured plans, small group pools are restricted to the borders of a single state. A single ill family member can render coverage unaffordable or unavailable for an entire firm.
- **Tax inequities:** The tax system creates major inequities between the large-group, small-group, and individual markets.
- **Obsolete reimbursement and delivery:** Medicare and Medicaid rest on antiquated reimbursement systems that lock obsolete delivery systems into place. The programs are financially unsustainable and threaten the solvency of governments, firms, and individuals.

Now, likewise, I'll list some of NFIB's favored approaches in resolving these problems:

- **Market reform:** The small group and individual markets need major overhauls.
- **Consistent rating rules:** We need national rating rules with some state discretion.

- **No health status rating:** Health status rating should be abandoned in the small group and individual markets. An illness should not put health insurance beyond reach of anyone.
- **Unified small-group market:** The small group market should not be split into multiple markets, such as separate markets for micro (1-10) groups and larger small groups.
- **Individual/small group merger:** To maximize the benefits of pooling, the small group and individual markets should be merged under consistent rules over a prudent timeline.
- **Exchanges:** Health insurance exchanges/portals should be present in every state to expedite the gathering of information, comparison of plans, and enactment of transactions. An exchange could encompass a multi-state region. Conceivably, some areas of the country could have multiple, competing exchanges, as long as all exchanges in a state or region are subject to identical market rules.
- **Tax credits:** Small business and low-income tax credits are essential if an individual mandate is enacted. It is important to structure credits so that they benefit those who need financial help in securing insurance, rather than those who do not.
- **Stabilize Medicare:** Medicare's financial balance must be restored. The financial hole in Medicare amounts to an unfunded debt of \$124,000 for every adult and child in America. In addition, Medicaid and SCHIP pose similar risks.
- **Medicare microeconomic effects:** The current reimbursement system rewards medical treatments rather than medical outcomes and wellness.
- **No employer mandates or pay-or-play:** NFIB strongly opposes employer mandates or pay-or-play schemes. Our recent study suggests that an employer mandate with a minimum 50% contribution would cost the country 1.6 million jobs over 5 years. A pay-or-play scheme would result in perverse incentives. It is a recipe for replacing full-time workers with part-timers, machines, and foreign outsourcing. It is vital to remember that the cost of employer mandates and pay-or-play ultimately falls on employees, not employers. Employer contributions should remain voluntary.
- **Easier Medicaid enrollment:** 25% of today's uninsured are Medicaid-eligible, so enrollment must be made easier.
- **Maintain private markets:** Market reforms and private insurance are preferable to a public plan or to early Medicare buy-in.
- **Plan flexibility:** Rules on minimum creditable coverage must not squelch innovation or preclude flexible benefit design. Like NFIB, you endorse quality high-deductible plans, for example.

You correctly note the "hidden tax" that uncompensated care imposes on taxpayers and private insurance purchasers. But without cost-reduction measures, reform may simply replace this hidden tax with an even larger, explicit, out-in-the-open tax. Employer mandates or pay-or-play schemes would have just that effect, plus the sort of perverse responses that you mentioned.

We agree that large and small employers care about their employees' health which, in turn affects firms' profitability. You mentioned some of the tools at your members' disposal: "innovative health coaching and healthy lifestyle programs, cost and quality transparency initiatives, pharmaceutical management programs, and value-based health plan designs." It is much more difficult, if not impossible, for small businesses to use such tools to steer their employees toward good health.

We appreciate your comment that, "the solutions to expanding coverage among smaller employers will critically depend on the ability to make this highly valued benefit more affordable and sustainable for

all.” In this, you mirror NFIB’s contention that expanded coverage and improved quality cannot occur without ratcheting down costs.

I’ve provided you today with NFIB’s recently expanded Small Business Principles for Healthcare Reform. I’ve also brought four recent studies that NFIB either conducted or commissioned. Lots more information is on our healthcare website: www.FixedForAmerica.com.

In sum, I think we agree that there’s a lot of good in America’s healthcare system. And there are substantial problems, many of which are centered on the families, employees, and owners of small businesses. As we move forward in the coming weeks and months, it is vital that we remember both of these facts.