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Small Businesses and the Implementation of the Affordable Care Act

Statement on Behalf of the Main Street Alliance

By

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Subcommittee on Oversight and investigations

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Chairman Murphy, Ranking Member DeGette, and Members of the Subcommittee,

It is an honor to be here this morning to provide information and perspective to you about the implementation of the Affordable Care Act on behalf of small business owners in the Main Street Alliance network. I am William Daley, Legislation and Policy Director for the Main Street Alliance.

Permit me to begin with a few words about the Main Street Alliance. Our growing network of state-based small business coalitions represents over twelve thousand small business owners through affiliates in a dozen states from Maine to Montana, in addition to at-large business owners spread throughout the country. Our priorities and positions at the national level are set by our National Steering Committee, a leadership body of 25 small business leaders drawn from our state affiliates. Our national network operates as a program of the non-profits Alliance for a Just Society and Community Organizations in Action.

Because it is our mission to create opportunities for small business owners to speak for themselves on issues that impact their businesses and their local economies, I am sorry that the short notice for this hearing precluded arranging for one of the business members of our National Steering Committee to appear here today.

My statement will focus on three issues associated with the continued debate about the ACA that are important to our small business owners:

- Premium Costs
- The Impact of the Employer Responsibility Requirement; and
- Paperwork.

Finally, I would like to close with some ideas about implementation at the state level and the importance of Medicaid expansion to the success of the insurance exchanges and the goal of making health care affordable for small businesses.

Premium Costs

Our members are very supportive of the Affordable Care Act and encourage its implementation. The problems that small businesses have had providing insurance for their employees before health care reform have been well documented in study after study. Surveys of our members and other small businesses point to affordability as the major reason for the fact that so many small business owners have been unable to offer health insurance to their employees – and in many cases are unable to get it for themselves and their own families. Our members also have questioned the value of what they found available in the market because benefits were weak and policies were subject to limits and preexisting condition exclusions.

At the same time, small employers were asked to pay an average of 18% more than large employers for comparable coverage. As premiums increased, many small businesses abandoned insurance and coverage fell.ⁱ The markets became victims of adverse selection that forced premiums even higher.

So when we hear warnings about “sticker shock” under the ACA, we have to suggest that sticker shock is something small businesses have experienced every year for many years, long before the ACA came along. Double digit increases in premiums have been commonplace year after year. Our members look to provisions of the ACA with the hope that this trend will finally abate.

On the 20th of this month Avalere Health Care, a private consulting firm, released a report outlining their findings that health insurance premiums for the new exchanges are actually

coming in below previous CBO estimates.ⁱⁱ Their findings are based on actual rate filings that are now available, not on theories or estimates by the insurance industry.

To be clear, only nine states have actual rate filings, but the early news is better than the term “sticker shock” would imply. Furthermore, these findings are strictly about rate filings and do not take into account the savings that many consumers, including our own members, have received from rebates returned to them thanks to the Medical Loss Ratio limits in the ACA. Nor do these findings factor in either the premium subsidies that will be available to the majority of insurance exchange consumers starting next January or the small business tax credits currently being used by hundreds of thousands of small businesses.

We note that these findings come fast on the heels of studies showing that overall rates of inflation in health care are lessening. Two recent studies published in Health Affairs document that the lowered rate of inflation in health care appears to result from factors that go beyond the deflationary effect of the Great Recession and appear to be structural.ⁱⁱⁱ

So, while our members are very concerned about the cost of health care coverage, there are hopeful signs. Continued progress in controlling costs will depend on the function of the insurance exchange marketplaces that are to open next January.

Market Risk and Coverage Requirements

Markets respond to risk. Earlier, I observed that our health insurance markets were plagued by adverse selection before the passage of the ACA. When the Congress fashioned the ACA, it showed great awareness of this problem. That is why one of the underlying premises of the Act is that pretty much everyone is going to be in the pool. This is the origin of the individual and employer responsibility requirements.

How will these provisions of the ACA affect small employers? It simply must be emphasized that the employer mandate does not apply to a business with under fifty employees. This means that over 95% of businesses in the country will not be affected by this provision of the law. Since we hear a whole lot about this provision, permit me also to observe that among the firms with 50 or more employees, 94% of these firms already provide health insurance to their employees. When we do the math we find that this provision will affect only one quarter of one percent of all firms.

Challenging though the requirement to offer health coverage might be for this tiny number of companies that do not provide insurance already, the fact is we need them in the pool along with everyone else. The broader the pool, the easier it will be for insurance companies to offer everyone a good price.

Furthermore, while our small businesses may not be impacted by the employer mandate, most of their employees will be subject to the individual mandate. Since group prices have always been less than individual market prices, good, strong small group markets will make it more possible for our firms to join with their employees and offer group coverage, to the benefit of everyone.

Therefore, it is pertinent to note some features of the market provisions in the ACA that will help make products more attractive:

- The first thing is that the products will be worth buying -- minimum essential benefits, no lifetime limits, no rescissions if people get sick, no preexisting condition exclusions, and strong medical loss ratio requirements – will mean that insurance will have more actual value.
- Second, medical underwriting – the practice of increasing a group’s premiums when someone gets sick – will no longer be possible.

- Third, there are market adjustment provisions in the ACA that will help contain risk for insurers. These include risk adjustment, reinsurance to share high risk cases, and community rating that will help provide greater predictability for insurers.
- Fourth, there is improved competition. Rates will be transparent, easy to compare in an “apples to apples” way, and insurance companies will offer uncompetitive rates at their peril.

Three other factors must also be recommended to you for your consideration:

1. Whatever the potential insurance risk impacts involved in bringing millions of previously uninsured individuals into the market, they surely will be offset by the premium subsidies provided through the insurance exchanges.
2. One of the great benefits of the ACA is the reduction in cost shifting associated with the care for the uninsured that is inevitably translated into higher costs for everyone through greater utilization of emergency rooms.
3. Young employees can be brought into the pool through qualified catastrophic plans, thus reducing cost shifting further and expanding the insurance pools.

We hear that all of this is going to cause a great rush away from insurance coverage by those who now provide coverage. There are credible analyses that substantially undermine this contention.^{iv} In fact, employer coverage in Massachusetts actually increased under that state’s pioneering health care reforms.

This idea that employers would so readily drop their health coverage directly contradicts an important issue that our small business owners have offered to me repeatedly, which is this: the ability to provide health insurance places big companies at a competitive advantage over small ones. It defies reason to suggest that firms that now use good health benefits to attract and retain a quality workforce are going to throw that tool away.

The same principle will apply to issues associated with the 30 hour dividing line between full time and part time employees. While some companies may mess with employee hours to avoid health care costs, most will find this technique administratively costly and offensive to employees who can go elsewhere. This is affirmed by a recent study by the human resources firm Towers Watson that found that over 98% of firms have no plans to change their employee hours because of this law.^v

Just to illustrate this point I note a story in the Dallas Business Journal on the 20th of this month quoting Scott Gordon, CFO of a restaurant company that has 2,800 employees:

“Some restaurant chains plan to cut employees' hours to stay under the 30-hour cap, but Gordon said Front Burner has ruled that out. "That's not the route that we're going to look at," he said. "We're going to do what's right for the restaurants. We don't think that cutting employees' hours is the right way to handle implementation of this. We value our employees and we value that they want to work for us, and we don't want to give them a reason to go work somewhere else.”^{vi}

Taken all together these provisions of the law not only pose no threat to the economy, they are a benefit.. It is impossible to avoid pointing out in this context that an estimated 1,500,000 new sole-proprietor businesses will be made possible because the ACA will free these entrepreneurs to go build new businesses without fear of losing health care.^{vii} What a wonderful thing for economic freedom in America.

Paperwork

One issue that is often raised as a concern for small business owners is the time and complexity involved in dealing with insurance paperwork. Surveys of our members identify this as a barrier to participation in insurance plans. The improved simplicity of applying for and choosing insurance options under the ACA will be an additional attraction to small businesses.

The on-line application process will be much simplified and the availability of comparative shopping will help small business owners and their employees to find plans that meet their needs more easily.

Enrollment in insurance plans is not the only application process our members will use under the ACA; there also is the matter of qualifying for the ACA's small business tax credits. Admittedly ours are small businesses, but they do not appear to find this process very daunting. Two of our members have come before committees of the House to testify on this. Matt Hisel, co-director of a recycled building materials business in Missoula, Montana testified in November 2011 that it took him less than half an hour to qualify his firm for the credits. Louisa McQueeney, CFO of a fruit packing and shipping business in Lantana, Florida testified in April of this year that it took her about an hour to qualify her firm for over \$7,000 in tax credits.

If we can get access to good insurance and credits through these new systems, the time involved will be well spent.

(I must observe in parentheses here that while there are many voices raised in the Congress about this "burden on small businesses," there are almost no voices being raised about the imposition of the E-Verify bureaucracy on small businesses in the immigration debate.)

Medicaid and Market Costs

Finally, a word about Medicaid expansion and market costs. Given the decision by the Supreme Court that made Medicaid expansions optional at the state level, it is important to observe that there will be negative repercussions on some exchanges in states that fail to move forward with Medicaid expansion. Medicaid is a critical substructure for good markets because it works to remove risk from the exchange pools and to reduce cost shifting. In states where the Medicaid expansion is rejected, we will see the unfortunate consequence of newly eligible consumers with incomes under 100% of poverty without any access to coverage at all. They will

not qualify for subsidies and they will not qualify for Medicaid. Their costs will shift to all of us and there will be an indirect impact on the price of insurance for small businesses. This dynamic, often ignored in the debates in states over Medicaid expansion, should give state lawmakers and Governors a new sense of urgency to move forward with the Medicaid expansion opportunity and reduce cost-shifting instead of increasing it.

Thank you for permitting me to offer these remarks.

ⁱ HealthCare.gov, *Health Insurance Premiums: Past High Costs Will Become the Present and Future Without Health Reform* (Jan. 28, 2011).

ⁱⁱ “Avalere Health analysis of health insurance rate filings publicly available as of June 12, 2013.” See also the analysis by Rick Ungar in the July 1st Edition of *Forbes* entitled “The Dull Knives Come Out As Anti-Obamacare Forces Falsely Attack California Healthcare Exchange Prices.”

ⁱⁱⁱ [Alexander J. Ryu](#), [Teresa B. Gibson](#), [M. Richard McKellar](#) and [Michael E. Chernew](#), “The Slowdown In Health Care Spending In 2009–11 Reflected Factors Other Than The Weak Economy And Thus May Persist,” *Health Affairs*, May 2013 and M. Cutler David, and Nikhil Sahni., [If Slow Rate Of Health Care Spending Growth Persists, Projections May Be Off By \\$770 Billion](#). *Health Affairs* 32, no. 5.

^{iv} In addition to the CBO analysis, see the analysis by J.P. Morgan as reported by Russ Britt, “Will firms ‘dump’ employees into health-insurance exchanges?” in *Health Exchange*, March 14, 2013.

^v See the report on the Towers Watson survey by Dan Cook: “Major employers won't skirt PPACA” at *BenefitsPro*, June 14, 2013.

^{vi} Bill Hethcock, “How Front Burner restaurants are navigating health insurance reform,” *Dallas Business Journal*, Jun 20, 2013.

^{vii} Linda J. Blumberg, Sabrina Corlette, and Kevin Lucia, “The Affordable Care Act: Improving Incentives for Entrepreneurship and Self-Employment :Timely Analysis of Immediate Health Policy Issues.” Robert Wood Johnson Foundation, May 2013.