Written Testimony
of

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Chairman Murphy, members of the Committee, thank you for the opportunity to testify today. My name is Jeff Kelly, CEO and Owner of Hamill Manufacturing, a 62 year old company based in Trafford, Pennsylvania.

Our first contract was for parts for the USS Nautilus, the first nuclear powered naval vessel. Hamill has produced critical components for every naval Nuclear reactor built since, and we hope to do that for the foreseeable future.

I own 51% of the company and my employees own 49% - we set up an ESOP in 2010. The long range plan is to be 100% employee owned when I retire in 4 years. We think we run our business the right way – customer and employee centric!

Our company is made up of machinists, welders, inspectors, technicians, contract administrators, purchasing people, engineers and administrators. There are about 125 of us in the Hamill family – and I cannot stress that point enough – at Hamill, just like at thousands of small businesses across the country, our employees are our family. We pay well; our average salary is about $50,000, which combined with our company size, means we are largely on our own and will not benefit from most of the subsidies and tax credits under the Affordable Care Act.

We offer good benefits, not just because it is the right thing to do but because it gives us an edge in recruiting and retaining the most talented employees but we can only do so much. In Southwest Pennsylvania, companies like ours compete against much larger employers who can offer higher wages and more easily absorb increased health care costs. At Hamill, we hired a co-op student his senior year of high school and completely paid for his four year apprenticeship program and he became a Journeyman machinist for us. He developed Hodgkin's Lymphoma, underwent a stem-cell transplant, but when he returned, we promoted him to a methods engineer and moved him to a different part of the plant in an environment that met his needs. After 11 years of employment, he left for higher wages at a larger manufacturer.

The irony is, our generous plans combined with increased health care costs are now resulting in us losing employees because we cannot increase wages like before. We try to provide wage increases every 12-18 months but this year we could not because we are paying a lot more for health care. Our total health care costs for the Fiscal Year ending March 31, 2010 were $795,000. Today, with the same number of employees, they are $1.2 million and would have been $1.8 million were it not for changes we had to make to prevent a catastrophic increase difficult for any small business to absorb.

As you'll see, not only is health care becoming unaffordable for Hamill, healthcare is increasingly burdensome for our employees and their families who are facing stagnant wages and higher deductibles, co-pays, and monthly premiums. In the 2000/2001 health care plan year, the employee paid only $12 a month for a family plan. Today, an employee pays $222 per month to ensure their family has health insurance -

We tend to keep our people for a long time. Our average age is 47. Our average length of service is 13 years and the median service is 9 years. We take the long view in managing the company. We hire interns and train our machinists in a Pennsylvania approved apprenticeship program. We provide vision and dental coverage at no additional cost to the employee and make sure each person in our shop feels like they are part of our Hamill family.

The future should be bright, but current and future healthcare costs cloud it. The Affordable Healthcare Act is proving to be unpredictable and unaffordable. Since the passage of law in 2010, our health care premiums have risen 46%. They would have been 20% higher if we had not taken some extraordinary means to hold the increase to 46%. A nearly 50% increase in health care costs is virtually impossible for a small business to absorb let alone a two-thirds increase. To avoid the additional 20%, we changed carriers, doubled our deductibles from $2,500/$5,000 to $5,000/$10,000 (individual/family), instituted an aggressive wellness program and charged a premium for all employees/spouses who are tobacco users.

The higher deductibles are misleading, since we as the employer cover 95% of the employees costs. Meaning, the company covers $4,500/$9,000 – difference between the employee share of the deductible ($500 individual/$1,000 family) and the real deductible of $5,000/$10,000. That means the amount the company will actually pay over a year depends on how many employees and by how much they go over their nominal deductible. In the 2012/2013 plan year, twenty-two of our covered members reached the deductible for an additional cost of $110,000 to the Hamill Manufacturing – money we could have used to hire two employees or increase wages.

So we track two numbers, the premiums we pay or are likely to pay and the company portion of the plan deductible. Additionally, the company pays about 80% of the premium while the employees pay the 20% balance. But I will tell you what we told our employees. Because so many of our jobs are critical to our operation, we just can't get rid of people if our healthcare costs continue to increase significantly. We will have to ask the employees to share more in the expense. We'll move to a 60/40 employer/employee cost breakdown position from our current 80/20 position. The speed with which we move to that position will depend on how steep the future cost curve is.

Our broker tells us that next year we can expect a premium increase of 10% if we have a "good" year in terms of claims. He says we can expect to be at or above that level of increases for the foreseeable future. It sounds like we will continue to increase at rates well above inflation. Additionally, there a number of new fees associated with the ACA that kick in on January 1, 2014 which will add $11,500 in this plan year and $49,000 next year.

Long before the ACA, we placed a strong emphasis on the health of our employees through a wellness program. At Hamill, we have a monthly walking challenge, a Biggest Loser Competition, held a Wellness Fair in 2012, have discounted health and wellness programs offered through our health insurance, and provide monthly healthy living seminars. In addition, we also offer reimbursements for tobacco cessation programs. This is part of our strategy to maintain a healthy, happy, and productive workforce while hopefully slowing the annual rate increases we face.

To stay competitive, Hamill will be forced to find ways reduce the impact of healthcare costs. We will have to ask our employees to share more costs. This really isn't desirable because of the morale and retention issues we would face. Skilled labor – having, finding and developing it - is the most important factor in any current or future success. Hamill faces a very competitive labor market because of the number of OEM's operating in SW PA. We have already had apprentices and skilled workers poached by some of these larger firms.

In addition to the actual costs involved with having a company sponsored healthcare plan, one cannot overstate how much management time and resources are spent on administering the plan. Throw in hours of time spent on trying to keep costs manageable, dealing with brokers and a limited number of providers, communicating with employees and trying to influence employees to take wellness seriously, you are left wondering if running or starting a small business is really worth the effort.

The attitude that has come to prevail in this country is that businesses should be social welfare agencies especially as regards healthcare. I don't think our employees want that, I know the employer doesn't want that, and I guarantee that when the employees own 100% of Hamill in four years – they will not want that. Hamill is fortunate enough to be of a size where it has a two-person Human Resources Department. Many small companies are not so fortunate. It is distressing to think what nightmares the ACA will impose on the small business trying to do right by its employees.

Manufacturing goods and providing services to our customers is our number one priority. Being a social benefits agency is not within our area of expertise, nor should it be. ACA is adding an impossible level of complexity to the already tough job of running a business, which competes not only in SW PA but globally against low cost countries.

I want to be clear – this is not just about how much our company pays for health care. I know many believe the Affordable Care Act will lower costs for small businesses – but we have yet to see that and quite the opposite. As implementation nears, insurance companies are pushing down as many increases as they think employers can absorb. At the time, some in Washington promised increased competition to lower rates, which may be the case in other parts of the country but not in Southwest Pennsylvania where we really only have two providers.

Further complicating factors, while we are considered a small business by the federal government in almost all other areas, we don't qualify under the arbitrary standards developed by lawmakers under the ACA. Since we have 125 employees, Hamill is above the 100 limit for companies to participate in the Small Business Health Options Plan (SHOP). And even if we did qualify, I live in state which will have a federally facilitated SHOP exchange which means my employees won't have an option to choose a plan to fit their needs and who knows what other delays and surprises regulators have in store.

We just started our Fiscal Year on April 1 and had planned to hire 12 new employees this year including four summer interns – representing a major jump in employment for us as we try and grow the business. However, how am I going to pay for them? Excluding the interns, if I hire eight people at an average salary of $50,000 a year that is $400,000 in additional payroll. But that is not the problem. If they have families, that is an additional $10,545 per employee for health care coverage and that is just the premiums. If two of them hit the deductible limit that is another $9,500 per employee cost to the company.

So the total cost of a new hire today for just salary and health care is over $70,000 before I've paid any taxes, retirement contributions and other benefits. While this is part of running a business, spending over $20,000 per year on health care coverage for an employee making $50,000 in wages is no way to run a successful business. And just wait until my broker calls and says he's adding another increase due to unintended consequences of the Affordable Care Act.

Several years ago, I served as Chairman of the National Tooling and Machining Association, with nearly 1,500 manufacturing companies located across the country. I remain active there and with other defense industry suppliers and I hear the same stories everywhere. Uncertainty, unpredictable, and unaffordable are just some of the words used by small businesses to describe unpredictable, and unaffordable are just some of the words used by small businesses to describe the health care law. Employers are starting to receive notices of new “user fees”, new coverage requirements, and rate increases.

While the federal government may run its budget differently, at a small business, we have to plan for future years today. How can I develop business strategy for 2014 when I have no way of knowing what health care increases are ahead. We will manage next year, but I am most concerned about when I retire in four years and turn the company over to the employees who will own 100% of the business. I doubt they will like running a health care provider which is what we’re on track to become instead of the manufacturing business they thought they were getting.

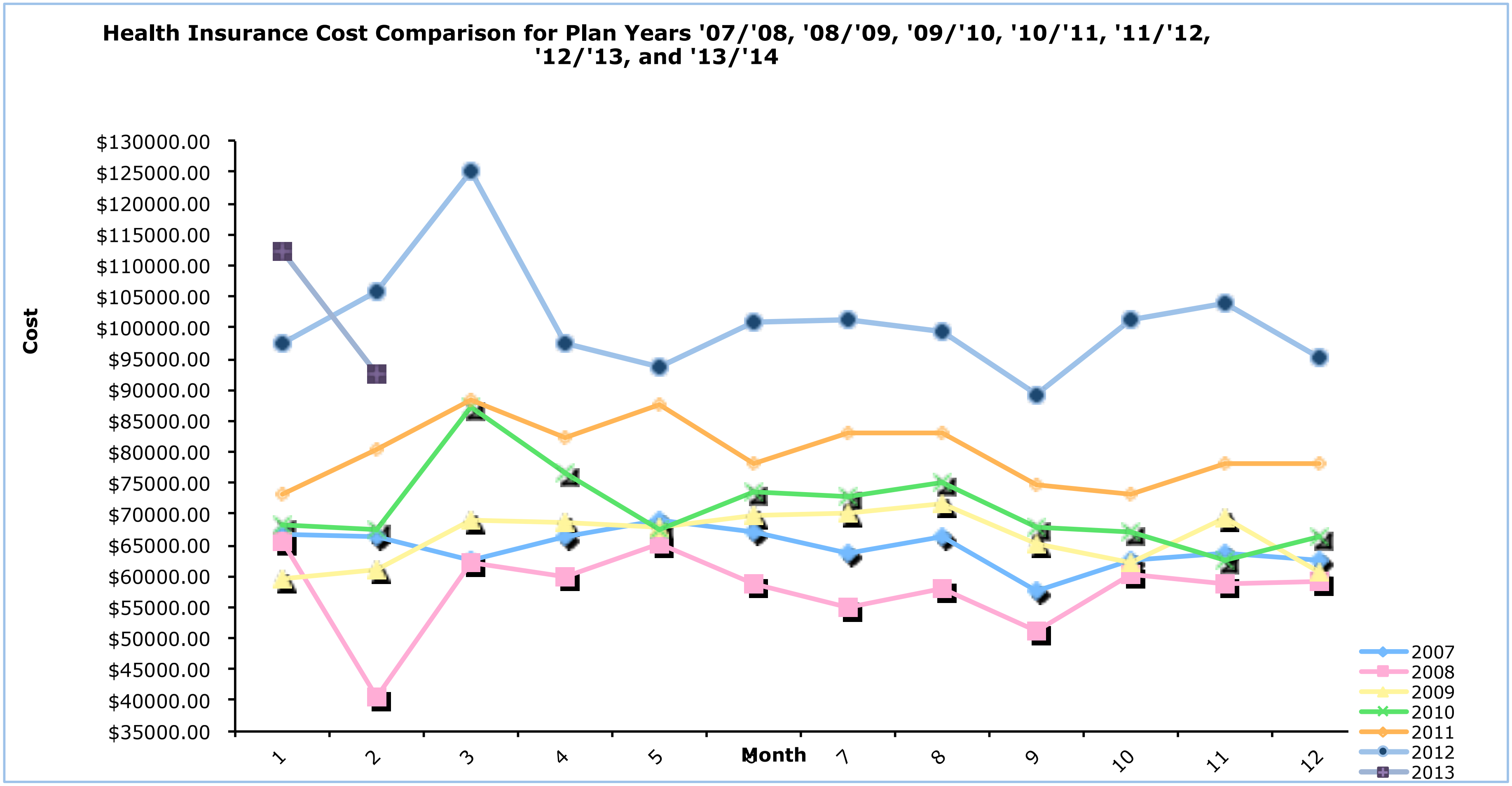
There is no question that the federal government needed to act and reform our health care system. But a one size fits all approach, with arbitrary standards and impractical requirements is not going to work and certainly is not lowering costs. Our company far exceeds most of the requirements and benefits set out under the ACA but why does it feel like we’re being punished for doing the right thing all these years with higher premiums, deductibles, and co-pays?

I served my country in the Marine Corps and all of us at Hamill are serving our country today by manufacturing critical products for our nation’s defense. That is what we are good at, manufacturing and being the best at what we do in customer service and the way we treat our employees. None of us want to be in the health care business but the Affordable Care Act puts me as the employer in that position when all we want to do is make parts to keep our country safe.

Thank you for the opportunity to testify before you today and bring attention to this important issue. We need sensible solutions to this problem which allows us to compete regionally and globally and strengthen manufacturing in America.

Seven Year History of Hamill's Healthcare Premiums and Actual Costs

Year	Premiums	% Change	Total Cost	%	Comment
4/07 - 3/08	$ 773719		$ 774671		
4/08 - 3/09	$ 597943	**-22.72%**	$ 694745	**-10.32%**	Hamill switched to high deductible plan and paid the difference between employee deductibles and "real" deductible. The real deductible was $2500/$5000. The employee deductible was $200/$400. By absorbing more risk, Hamill was able to see a reduction in costs from the previous year.
4/09 - 3/10	$ 659384	**10.28%**	$ 795134	**14.45%**	
4/10 - 3/11	$ 711736	**7.94%**	$ 852053	**7.16%**	Hamill changed carriers - from HealthAmerica to Highmark.
4/11 - 3/12	$ 778979	**9.45%**	$ 959445	**12.60%**	Hamill enjoyed the effects of the second year of a cap - 10%, that Hamill was able to negotiate when it switched carriers the previous year.
4/12 - 3/13	$ 951615	**22.16%**	$ 1211250	**26.24%**	Hamill increased the real deductible to $5,000/$10,000. This kept the premium from a requested 42% increase by Highmark to a 22% increase.
4/13 - 3/14 (Projected)	$ 1042550	**9.56%**		**TBD**	Hamill switched carriers back to HealthAmerica. Deductible level remained at $5,000/$10,000 and the increase in premium is 10%. Hamill instituted a FSA for employees. The employee deductible is increased to $500/$1000. Hamill institutes an aggressive wellness program and a premium for tobacco users.
Notes:					
Difference in premium from 4/10 to 4/13		**46.48%**			Net premium has increased by 47% in the 3 years since the Unaffordable Health Care Act passed. It could have gone up another 20% if Hamill hadn't substantially increased deductibles and changed carriers.
Difference in yearly cost from 3/10 to 3/13.				**42.16%**	Total yearly cost has increased 42% in the three years since the healthcare law was passed.



Health Insurance Cost Comparison for Plan Years '07/'08, '08/'09, '09/'10, '10/'11, '11/'12, '12/'13, and '13/'14
Cost
$130000.00
$125000.00
$120000.00
$115000.00
$110000.00
$105000.00
$100000.00
$95000.00
$90000.00
$85000.00
$80000.00
$75000.00
$70000.00
$65000.00
$60000.00
$55000.00
$50000.00
$45000.00
$40000.00
$35000.00
1
2
3
4
5
Month
7
8
9
10
11
12
2007
2008
2009
2010
2011
2012
2013