

Senator Olympia J. Snowe
Introductory Statement for Small Business Health Insurance Relief Act of 2006
March 27, 2006

Mr. President, I rise to introduce legislation that would address the crisis that faces small businesses when it comes to purchasing quality, affordable health insurance. This isn't a new crisis. Nearly 46 million Americans are uninsured, and we've now experienced double digit percentage increases in health insurance premiums in four of the past five years.

Last year, I introduced the Small Business Health Fairness Act (S. 406), which would allow small businesses to pool together, through national Association Health Plans, also known as Small Business Health Plans (SBHPs), to offer uniform health insurance products to their employees. Small businesses would receive the same benefits currently enjoyed by larger employers and union plans under Federal law.

I am encouraged by the considerable progress that has been made on SBHPs in this Senate. I would like to commend Senator Mike Enzi for his continuing commitment to the SBHP issue, and for marking-up SBHP legislation in the Health, Education, Labor, and Pensions Committee. Plain and simple, the Senate must take up – and pass – SBHP legislation to provide small businesses with much-needed, long-awaited relief.

While I continue to believe that SBHPs are a crucial solution to the small business health insurance crisis, we in Congress must look for other means by which to encourage small businesses to offer health insurance. I believe that we should do this by: (1) providing targeted tax incentives that encourage the smallest businesses to offer health insurance; and (2) using the tax code to inject much-needed competition in dysfunctional state small group markets.

The Small Business Health Insurance Relief Act of 2006 would achieve both of these objectives. First, I propose a targeted tax credit that would encourage our nation's smallest businesses to offer health insurance as a workplace benefit.

Study after study tells us that the smallest businesses are the ones least likely to offer insurance and most in need of assistance. According to the Employee Benefit Research Institute, of the working uninsured, who make up 83 percent of our nations uninsured population, 60.6 percent either work for a small business with fewer than 100 employees or are self-employed.

Small businesses in my own state of Maine have it particularly bad. Last summer, the Maine Center for Economic Policy (MECEP) reported a 15 percent average premium increase for small businesses in Maine over the past three years. The MECEP report also highlighted several other alarming trends: Half of the small businesses surveyed raised deductibles over the past three years. Over one quarter have either increased co-payments or reduced coverage, or have delayed pay raises to cover increased costs. Eight percent of Maine small businesses have dropped health coverage entirely.

Furthermore, coverage trends for small businesses are getting worse, not better. According to the Kaiser Family Foundation's *Employer Health Benefits 2005 Annual Survey*: only 47 percent of the smallest employers, those with 3 to 9 workers, now offer health insurance as a workplace benefit. This is down from 52 percent in 2004, and 58 percent in 2002. In sharp contrast, 98 percent of larger businesses, those with 200 or more workers, offer health insurance as a benefit.

The targeted tax incentives in my bill would help ensure that our nation's smallest businesses can offer health insurance – in the same way that larger businesses currently do. My legislation targets small businesses with 50 or fewer employees because these are the small businesses most desperately in need. The

maximum tax credit under the proposal would be \$1,500 for single coverage and \$3,000 for family coverage. The tax credit would phase out as a business increases in size. Notably, my proposal is neutral between types of insurance: small businesses and their employees can choose what works best for them – traditional employer-sponsored health insurance or health savings accounts (HSAs).

Under my legislation, a small business with five employees would be eligible for a per-participant tax credit of \$3,000 for a family health insurance plan, and a potential total tax credit of \$15,000. Small businesses cite escalating cost as the number one impediment to providing health insurance. Putting \$15,000 in the hands of a small business owner could certainly help to overcome this barrier.

My proposal would also allow small businesses to establish cafeteria tax plans so that they can provide their employees with nontaxable benefits. Under current law, many larger businesses and the Federal government enable their employees to purchase health insurance and other qualified benefits with tax-free dollars. However, small businesses face difficulty in offering cafeteria plans because they must satisfy strict nondiscrimination rules under the tax code. Although these non-discrimination rules serve a legitimate purpose, many small businesses simply cannot satisfy those mechanical rules because, through no fault of their own, they have relatively few employees and a high proportion of owners considered highly compensated individuals. This makes it difficult for small firms to offer benefits through a cafeteria plan.

It is vital that we allow small businesses to offer their employees non-taxable benefits so that they can effectively compete with their larger counterparts. Small businesses are the engine that drives economic growth and job creation, and it is critical that we put them on an equal footing with

large businesses in the quest for talent.

Second, my legislation also would provide a necessary reform of the state small group health insurance markets. Plain and simple, there is no competition in the small group market, and coverage and affordability are real problems. I recently requested, along with Senators Christopher Bond and Jim Talent, that the Government Accountability Office (GAO) survey: (1) the number of insurance carriers licensed in the small group market; (2) the largest carriers and their market share; (3) the market share of the five largest carriers in the small group market; and (4) the combined market share of all Blue Cross and Blue Shield (BCBS) carriers in each state.

The GAO reported a frightening consolidation of control over state insurance markets. The five largest carriers now have more than 75 percent market share in 26 states (up from 19 in 2002) and more than 90 percent market share in 12 states (as opposed to 7 in 2002). In Maine, BCBS carriers now have a 63 percent market share (up from 39.1 percent in 2002) and the five largest carriers have a 98 percent share. Across the country, BCBS carriers now control 44 percent of small group market, up from 34 percent in 2002.

To counter this market consolidation, my legislation would provide insurers with a 50 percent tax deduction for claims and expenses incurred in serving the small group market and Small Business Health Plans (SBHPs). I believe this incentive will serve as a powerful motivator for new insurers to enter this dysfunctional marketplace.

My legislation would reduce barriers insurance companies face in entering new markets. Specifically, it would provide a tax credit to defray the cost of state licensing requirements. Under the proposal, an insurer can claim a tax credit of the lesser of 50 percent of qualified costs or \$10,000 to cover the administrative costs and expenses incurred in satisfying state licensing requirements. Available with respect to each state in which an insurer operates, this incentive should

encourage a host of insurers to provide products in the state small group market.

Finally, my legislation would establish a pilot grant program for Small Business Development Centers to provide educational programs to small businesses designed to increase awareness regarding health insurance options available in their areas. Recent research has found that with a short (less than 10 minute education session), organizations can increase small business knowledge and interest in offering health insurance by about 33 percent.

Together with SBHP legislation, I believe that these proposals could help to solve the small business health insurance crisis. I look forward to working in a bipartisan fashion, with my colleagues on both the Finance and HELP Committees to push these proposals through the Senate.

The time for words has long passed. Now is a time for action. The Senate must take action this year to provide small businesses with much-needed relief.

Thank you, Mr. President. I ask unanimous consent that the text of my bill and a copy of my statement be included in the record.