

Senate Committee on Health, Education, Labor and Pensions

“Small Business and Health Insurance: Easing Costs and Expanding Access”

Statement of Joseph E. Rossmann, Vice President of Fringe Benefits, Associated Builders and Contractors, Inc.

On behalf of the Association Health Plan Coalition

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Introduction

Mr. Chairman, Ranking Member Kennedy and members of the Senate Health, Education, Labor and Pensions Committee, thank you for holding this hearing which will address the problems that small businesses face in providing quality health insurance for themselves and their employees.

My name is Joseph E. Rossmann, and I am Vice President of Fringe Benefits for Associated Builders and Contractors (ABC). ABC is a national trade association representing over 23,000 general contractors, subcontractors, material suppliers, and related firms from across the country and from all specialties in the construction industry in a network of 79 chapters. Our diverse membership is bound by a shared commitment to the merit shop philosophy of awarding construction contracts to the lowest responsible bidder, regardless of labor affiliation, through open and competitive bidding. With more than 80 percent of construction today performed by merit shop contractors, ABC is proud to be their voice.

I am testifying before you today on behalf of the Association Health Plan (AHP) Coalition (membership list attached), which consists of over 150 national and regional organizations that support S. 406, the Small Business Health Fairness Act of 2005 sponsored by Senator Olympia Snowe (R-ME). The AHP Coalition represents over 12 million employers and over 80 million small business workers throughout America. I also am secretary and past president of The Association Healthcare Coalition, which consists of bona fide trade and professional associations that currently operate association-sponsored health plans, or have done so in the past. I will be summarizing my comments, but I would request that my full statement be submitted for the official record.

Mr. Chairman, today's hearing is extremely timely. The problem of small business workers not having access to affordable health benefits is reaching epidemic proportions across the nation. Since over 60 percent of all uninsured Americans are employed by a small business, or are dependents thereof, the current trend of skyrocketing premium increases threatens to greatly expand the number of uninsured Americans, which now stands at approximately 45 million.

Indeed, massive premium increases of 30 percent, 40 percent and higher, and/or benefit reductions, are typical of what small businesses throughout the nation are experiencing today.

Clearly, current initiatives aimed at expanding access to affordable health care are not working. As such, Congress must take action to address this critical issue this year to prevent thousands of small business workers from losing their health benefits, and to expand coverage to millions of uninsured Americans.

Our coalition strongly urges Congress to enact the Small Business Health Fairness Act of 2005 (S. 406), bipartisan legislation which would bring much needed competition to the small group health insurance market. Congress should approve the AHP bill this year to expand access to health benefits for small businesses and the self-employed.

The Need for Association Health Plans

The Small Business Health Fairness Act of 2005 would help achieve the goal of providing Fortune 500-style health benefits to working families employed by small businesses. Through this legislation, AHPs will empower our nation's entrepreneurs with the same tools that large employers and unions currently enjoy under the Employee Retirement Income Security Act (ERISA) making health coverage affordable for working families. These tools are:

- ⇒ Economies of scale and increased bargaining power for small employers;
- ⇒ Administrative savings from having one uniform set of rules;
- ⇒ The option of self-funding health benefits;
- ⇒ Health benefit design flexibility;
- ⇒ Increased competition in health insurance markets.

AHPs can reduce health insurance costs by 15 – 20 percent by allowing small businesses to join together nationwide to obtain the same economies of scale, bargaining clout, and administrative efficiencies now available to employees in large employer and union health plans. New coverage options will promote greater competition and more choices in health insurance markets. In order to make sure benefits for small business workers are secure, the legislation also contains tough solvency standards.

The Small Business Health Fairness Act is the **only** proposal before Congress which will put small business workers on a level playing field with employees in large corporations or union health plans. Right now, small business workers are second-class citizens when it comes to health benefits. On average, workers in firms with less than 10 employees pay 17 percent more for a given health benefit than workers employed in a large company. This is because small businesses don't have access to the type of economies of scale, bargaining power and administrative savings that corporate and union plans now have. The AHP legislation will help rectify this inequity by leveling the playing field between workers in small and large businesses.

We estimate that AHPs, through the enactment of S. 406, can reduce the cost of health benefits by 15 – 20 percent for small business workers. We know this because association plans have already proven they can deliver savings compared with the cost of small employers purchasing directly from an insurance company. For example, the AHP sponsored by ABC for nearly 45 years, which operated nationally, had total administrative expenses of 13 ½ cents (13.5

percent) for every dollar of premium. These costs included all marketing, administration, insurance company risk, claim payment expenses and state premium taxes. Alternatively, small employers who purchase coverage directly from an insurance company can experience total expenses of 25 to 35 cents (25 – 35 percent) for every dollar of premium. **Moreover, any profit generated by an AHP in a given year does not go to the stockholders of the insurance company, but rather stays in the plan and inures to the benefit of participants by keeping costs lower in the future.**

ABC successfully operated an Association Health Plan through the ABC Insurance Trust. Because of the overwhelming costs in trying to comply with overlapping, inconsistent and often incompatible state laws, our health insurance carrier was forced to drop their AHP coverage. Today, ABC continues to provide a full array of insurance benefits, but has been forced to work with multiple health insurance providers. ABC now serves as a broker, providing our membership with the most competitive carriers and rates in their area. ABC is a perfect example of how a trade or professional association, serving as a purchasing pool for employers, can have a significant impact upon the small employer health insurance market in both price and design.

The ABC Insurance Trust was founded in 1957 by five contractors who could not afford group health insurance for their employees in the open market due to their size. Until 1999, the ABC Insurance Trust served as a voluntary purchasing pool for members of the association. An important component of the plan's long-term success was that it was guided by contractor members who serve as trustees and fiduciaries under the plan. As participants in the program, they acted in the best interest of their fellow members and their employees. Participation by the board of trustees is a key ingredient in aggregating the voice of employers to negotiate price and coverage with insurance carriers and other providers.

ABC's Association Health Plan program offered HMOs, PPOs, and traditional health insurance plans. All of ABC's plans provided wellness benefits with coverage for physicals and annual check ups. ABC continues to offer dental coverage, group life insurance, and disability programs to serve members of the association. A majority of those covered work for small construction firms with 10-20 employees.

ABC's Insurance Trust operates in full compliance with ERISA reporting requirements, with the Consolidated Omnibus Reconciliation Act (COBRA) of 1985 and with the Health Insurance Portability and Accountability Act (HIPAA) of 1996. Complying with the federal HIPAA legislation requires ABC and other associations to provide open access to all members and provide credit for prior coverage. In fact, Association Health Plans are specifically referenced and defined in the HIPAA legislation and are required to take all members under HIPAA guidelines.

The inability of states to provide a regulatory environment in which associations can serve as a source of affordable health benefits for small business workers is a real tragedy. Bona fide trade associations have an established infrastructure that allows them to communicate with members more effectively because of their pre-established relationships. This unique structure allows associations to add value to their members and workers that other organizations or purchasing pools cannot duplicate. AHPs are capable of offering valuable options by providing additional benefits over and above what many insurance companies provide today. Associations can successfully tailor the products and services specifically for the needs of their members.

Workers in small businesses desperately need a viable mechanism to band together to increase their bargaining clout and create more competition in health insurance markets. This is true more so today than ever before due to the huge wave of consolidation among health insurance companies and hospitals. Recent mergers of health insurance companies have reduced competition and alternatives for small employers who seek access to quality and affordable health insurance. In fact, a survey of state insurance commissioners conducted by the General Accounting Office (GAO) at the request of Senator Kit Bond (R-MO) found disturbing levels of concentration on the small group health insurance markets, with market shares of nearly 90 percent among the five largest companies in 7 states.

Dr. James Robinson, Professor of Health Economics at the University of California, Berkeley, calculates that the top three health insurance companies control two-thirds or more of the health care business in all but 14 states. (Robinson, James C., Consolidation and the Transformation of Competition in Health Insurance, Health Affairs, Vol. 23, No. 6 (Nov. /Dec. 2004)). Robinson compares those numbers with 2000-2003 financial results of the top five national insurance firms. His research shows a decline in the percent of each premium dollar that goes to pay medical claims, while insurance companies have enjoyed double digit growth in premiums, earnings and equity share prices. Ultimately, Robinson contends that the health insurance industry will only be revitalized through product innovation and further competition.

Today, there is a great need to bring more competition back into the system rather than continually reducing it. By providing more options and choices for small employers, the AHP legislation will inject greater competition in health insurance markets, thus bringing down premiums and expanding health plan benefits and plan options to more small business workers and their families.

Rebuttal of Criticism of AHP Legislation

I would like to address some of the criticisms of S.406 that have been raised by large insurance companies and state insurance commissioners, who have a vested interest in maintaining the status quo. First, opponents claim that AHPs will “cherry pick” the market and only benefit healthier groups of people. But the assumptions under which this argument is made do not hold up to scrutiny.

AHP legislation will not result in cherry picking for the following reasons:

- ⇒ The Small Business Health Fairness Act of 2005 explicitly prohibits association health plans from AHPs from denying coverage to any eligible participants based on the health status of an individual employer or employee. Thus, it will not be possible for AHPs to “cherry pick” because sick or high risk groups or individuals cannot be denied coverage;
- ⇒ The bill contains strict requirements under which only **bona fide** professional and trade associations can sponsor an AHP. These organizations must be established for purposes **other than** providing health insurance for at least three years. Thus, an AHP **cannot** “select a population that is healthier than those in other regulated pools.” The bill strictly prohibits “sham association plans” set up by insurance companies in the past as a front group aimed at cherry picking the market;

- ⇒ Opponents' allegations about adverse selection rest on the **mistaken assumption** that small businesses will offer only “bare bones” benefit packages through AHPs. There is broad agreement that “bare bones” plans, wherever they have been tried, have failed due to lack of demand. This is because small business workers want Fortune-500 style benefits like those enjoyed by workers in large companies. Also, small businesses **must** offer benefit options comparable to those offered by large companies if they are going to attract and retain quality employees;
- ⇒ Adverse selection that **currently exists** in state markets will be greatly reduced when younger, healthier workers employed in small businesses who are now uninsured are able to obtain coverage that is affordable;
- ⇒ The bill gives small businesses the ability to offer the **same** type of benefit packages now available to health plans established by large corporations and labor unions;
- ⇒ Non-profit associations exist to serve their members. If they attempt to exclude members to avoid higher risks, or do not offer attractive benefit options, their mission is fundamentally compromised and they will not be able to compete in the marketplace;

The other major criticism of AHP made by opponents of this legislation is that benefits offered by AHPs will not be secure. This ignores two facts: First that AHPs under this legislation are fundamentally different from MEWA health plans which operate under federal and state laws; and second, it ignores the strong solvency standards required for AHPs under the bill, which will increase consumer protections for many small business workers. The bill requires the following solvency provisions for self-funded AHPs:

- ⇒ Claims reserves certified by a qualified actuary;
- ⇒ Minimum surplus requirements;
- ⇒ Both specific and aggregate stop-loss insurance;
- ⇒ Indemnification insurance to ensure that all claims are paid;
- ⇒ AHPs must register with the state in which they are domiciled;
- ⇒ AHPs must abide by strict disclosure and actuarial reporting procedures; and
- ⇒ The bill provides severe criminal and civil penalties to combat fraud.

Indeed, a former Inspector General at the Department of Labor has testified before Congress that the new enforcement tools for regulators contained in this legislation will help reduce health insurance fraud. Thus, allegations that health coverage obtained through AHPs will not be secure ignore these strong protections contained in the bill.

Conclusion

In conclusion, the 12 million employers and more than 80 million employees represented by the AHP Coalition strongly urge Congress to pass, and the President to sign the Small

Business Health Fairness Act of 2005 into law. Association Health Plans provide affordable health coverage to small businesses, and extend coverage to uninsured people. While AHPs are not the only solution to America's health care crisis, AHPs are an **essential** component of the solution. AHPs are important for many working families employed in small businesses who otherwise could not afford coverage. Passage of the Small Business Health Fairness Act of 2005 will ensure that employees of small businesses receive the affordable, high quality health care coverage they both need and deserve.

I appreciate this opportunity to testify before this Committee on an issue of vital importance to our membership and small business owners across the country. We look forward to continuing a constructive dialogue on how to increase access to affordable and competitive health insurance for small businesses. I would be happy to answer any of the questions the Committee may have.

Organizations Supporting Association Health Plans

The following organizations, representing over **12 million employers and 80 million workers**, **strongly support S. 406 and H.R. 525, the Small Business Health Fairness Act of 2005**, bipartisan legislation to strengthen and expand Association Health Plans (AHPs). This legislation will provide workers employed in small businesses and the self-employed gain access to Fortune 500-style health benefits now enjoyed by workers in corporate and labor union health plans.

Adhesive and Sealant Council
Air Conditioning Contractors of America
American Alliance of Service Providers
American Apparel & Footwear Association
American Association of Advertising Agencies
American Association of Engineering Societies
American Association of Franchisees and Dealers
American Association of Small Property Owners
ABL – America’s Wine, Beer, and Spirit Retailers
American Bakers Association
American Concrete Pumping Association
American Council of Engineering Companies
American Disc Jockey Association
American Electronics Association
American Foundry Society
American Furniture Manufacturers Association
American Institute of Chemical Engineers
American International Automobile Dealers Association
American Hotel and Lodging Association
American Lighting Association
American Nursery and Landscape Association
American Rental Association
American Road and Transportation Builders Association
American Small Businesses Association
American Society of Association Executives
American Society of Civil Engineers
American Society of Home Inspectors
American Society of Mechanical Engineers, Board on Member Interests & Development
American Staffing Association
American Textile Machinery Association
American Veterinary Medical Association
American Wholesale Marketers Association
Americans for Tax Reform
AOMALLIANCE
Archery Trade Association
Associated Builders and Contractors
Associated General Contractors of America
Associated Prevailing Wage Contractors, Inc.

Association for Manufacturing Technology
Association of California Water Agencies
Association of Equipment Manufacturers
Association of Independent Maryland Schools
Association of Ship Brokers and Agents
Association of Suppliers to the Paper Industry
Automotive Aftermarket Industry Association
Automotive Aftermarket Association Southeast
Automotive Service Association
Automotive Undercar Trade Organization
Automotive Wholesalers Association of New England
Automotive Parts & Services Association
Bowling Proprietors' Association of America
California Motor Car Dealers Association
California Society of CPAs
California/Nevada Automotive Wholesalers Association
Center for New Black Leadership
Central Service Association
Chesapeake Automotive Business Association
Cleveland Automobile Dealers Association
Club Managers Association of America
Christian Schools International
Coca Cola Bottlers Association
Communicating for Agriculture
Construction Management Association of America
Consumer Specialty Products Association
Deep South Equipment Dealers Association
Electronics Representatives Association Insurance Trust
Far West Equipment Dealers Association
Farm Equipment Manufacturers Association
Financial Executives International
Financial Planning Association
Food Marketing Institute
GrassRoots Impact
Hearth, Patio and Barbecue Association
Hispanic Business Roundtable
Independent Electrical Contractors
Independent Office Products & Furniture Dealers Association
Independent Stationers, Inc.
Institute of Electrical and Electronics Engineers - United States of America
International Association of Professional Event Photographers
International Foodservice Distributors Association
International Franchise Association
International Housewares Association
Iowa Automobile Dealers Association
Iowa-Nebraska Equipment Dealers Association
The Latino Coalition
Mason Contractors Association
Material Handling Equipment Distributors Association (MHEDA)

Metal Manufacturers' Education and Training Alliance
Midwest Automotive Industry Association
Midwest Equipment Dealers Association
Motor & Equipment Manufacturers Association
NAMM, the International Music Products Association
National Association for the Self-Employed
National Association of Chemical Distributors
National Association of Community Health Centers
National Association of Computer Consultant Businesses
National Association of Convenience Stores
National Association of Home Builders
National Association of Manufacturers
National Association of Plumbing-Heating-Cooling Contractors
National Association of Realtors
National Association of Theatre Owners
National Association of Wholesaler-Distributors
National Association of Women Business Owners
National Automobile Dealers Association
National Black Chamber of Commerce
National Burglar and Fire Alarm Association
National Cattlemen's Beef Association
National Club Association
National Concrete Masonry Association
National Council of Agricultural Employers
National Federation of Independent Business
National Franchise Association
National Funeral Directors Association
National Lumber and Building Material Dealers Association
National Newspaper Association
National Office Products Alliance
National Paint and Coatings Association
National Portable Storage Association
National Precast Concrete Association
National Rental Association
National Retail Federation
National Restaurant Association
National Roofing Contractors Association
National Spa and Pool Institute
National Society of Accountants
National Society of Professional Engineers
National Sporting Goods Association
National Systems Contractors Association
National Tile Contractors Association
National Tooling & Machining Association
National Utility Contractors Association
Nebraska New Car and Truck Dealers Association
New Mexico Automotive Parts and Service Association
New York State Automotive Aftermarket Association
North American Die Casting Association

North American Equipment Dealers Association
North American Retail Dealers Association
North Dakota Automobile and Implement Dealers Association
Northeastern Retail Lumber Association
Office Furniture Dealers Alliance
Ohio Valley Automotive Aftermarket Association
Outdoor Industry Association
Piano Technicians Guild
Precision Machine Products Association
Precision Metalforming Association
Printing Industries of America
Printing Industries of Maryland
Process Equipment Manufacturers' Association
Professional Detailing Technicians Association
Professional Golfers' Association of America
Professional Photographers of America
Retailers Bakery Association
Service Station Dealers of America and Allied Trades
Self Insurance Institute of America
Small Business Survival Committee
Society of American Florists
Society of the Plastics Industry
Society of Professional Benefit Administrators
Southern Equipment Dealers Association
Southeastern Equipment Dealers Association
Southeastern Farm Equipment Dealers Association
Southwestern Association
Specialty Equipment Market Association (SEMA)
Snack Food Association
Student Photographic Society
Textile Rental Services Association of America
The Association Healthcare Coalition
Timber Operators Council Management Services
Timber Products Manufacturers Association
Tire Industry Association
United States Federation of Small Businesses, Inc.
U.S. Chamber of Commerce
U.S. Hispanic Chamber of Commerce
U.S. Pan Asian America Chamber of Commerce
Vermont Automobile Dealers Association
Virginia Bankers Association
Washington Area New Automobile Dealers Association
Western Growers Association
Women Impacting Public Policy
Wisconsin Automobile & Truck Dealers Association
World Wide Insurance Services, Inc.