United States Senate Committee on Small Business & Entrepreneurship
Hearing:
"Alternatives to Easing the Small Business Health Care Burden"
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Testimony

TESTIMONY OF TARREN BRAGDON
DIRECTOR OF HEALTH REFORM INITIATIVES
THE MAINE HERITAGE POLICY CENTER

Introductory Remarks

Good morning, Chairman Kerry, Ranking Member Snowe, and members of the Committee. Thank you for inviting me to discuss ideas for expanding access and increasing affordability of health coverage for small businesses and their employees. The Maine Heritage Policy Center is non-profit, non-partisan research and educational organization located in Portland, Maine.

There are three main challenges for small business owners:

1. Offering coverage to employees
2. Affording a share of the premium necessary to attract the desired workforce
3. Finding competitive offerings in the small group market

There are many steps Congress can take to ease the health care burden and support health benefits for small businesses.

Encourage Small Employers to Offer Coverage, Regardless of the Share of the Premium Paid by the Employer

While much has been said about the cost of health insurance, federal studies show that employees are very likely to get coverage through their employer if it is offered, even when the employer pays only a small share of the premium.

Although only 61 percent of small firms (fewer than 50 employees) offer health insurance to their employees compared to almost all (97 percent) larger firms, a similar 78 to 81 percent of those eligible enroll (take-up) health insurance provided through their employer. Those very small businesses with less than 10 or 25 employees have much lower offer rates - 34 and 64 percent, respectively. Interestingly, states with a higher share of small business employees who are offered health insurance also tend to have higher take-up rates.[1] This suggests that having more small businesses offer health insurance, almost regardless of the employer's contribution, could significantly increase the portion and total number of those insured.

According to research published this month by the Kaiser Family Foundation, employees with the highest cost sharing (37 percent or more of the employee-only

premium, or $1,570+ per year) still have a very high take-up rate of 68 percent. Those with 100 percent employer-paid coverage only have an 89 percent take-up rate. For expensive family coverage, take-up rates for those with the highest cost sharing (56 percent or more, or $6,460+ per year) are 77 percent compared to 90 percent for those with no family premium cost sharing. Even lower wage firms (those with more than 35 percent of employees earning less than $20,000 a year) had similar take-up rates for high levels of premium cost sharing.[2]

These data seem to suggest that most employees will buy health insurance coverage at high take-up rates as long as it is facilitated through their employer.

Insurers seem to be recognizing the benefit of offering coverage through the workplace even with modest employer contributions. Blue Cross and Blue Shield of California BeneFits Portfolio and Employee Elect Plans offer participating small businesses (2 to 50 employees) a cafeteria plan with 6 to 17 different health plans. The minimum employer contribution is as low as $50 to $100 per employee per month with only 60 to 70 percent of eligible employees required to enroll. Plan range from first-dollar coverage HMO plans to HSA-compatible plans.[3] This concept is a private-market variation of the Connector that is part of the Massachusetts health reform of 2006.

All this would suggest that fairly modest federal tax incentives encouraging very small businesses (less than 25 employees) to simply offer health coverage would likely greatly increase offer rates for employers and take-up rates for employees. This more modest proposal would not have the significant federal fiscal impact of sizable small employer premium subsidies. This targeted approach would be broad in reach as there are an estimated 4.5 million such private establishments with a total 24.7 million employees. Employer premium subsidies, as provided in Chairman Kerry's Small Business Health Care Tax Credit Act (S.99), albeit more broadly, would likely increase the offer and take-up rates even more.

Consider a Regional Approach to Small Business Health Plans

We appreciate Senator Snowe's long-standing support of Association Health Plan (S.406) and Small Business Health Plans (S.1955). These would provide critical and immediate federal relief to small businesses struggling to provide coverage in the costly small group insurance market. These proposals should be part of any legislation designed to ease the small business health care burden.

This is most acute in Maine. Maine has only four active insurers in the small group market.[4] However, Connecticut, with just over twice as many small business employees, has 25 licensed carriers.[5] New Hampshire has fourteen, although it has fewer small business employees than Maine.[6]

Although much of the Small Business Health Plan legislation focused on benefit mandates, Maine's costly small group insurance – 8th highest in country[7] - is driven more by premium regulations – mostly Maine's restrictive modified community rating. This is particularly a problem in Maine as 40 percent of all private-sector

employees in Maine work for a small employer (less than 50 employees) – far above the national average of 29 percent. Only seven states have a larger share of the private workforce working for small businesses.

Medicare provides a model of a regional approach to coverage that provides more options to individuals in particularly small or rural states than would likely be available if each state were its own region. Maine and New Hampshire are combined for the Medicare Advantage (MA) and Medicare Part D Prescription Drug Plan (PDP) regions. The four remaining New England states are their own MA and PDP regions. This approach has given Maine seniors more affordable options.

According the Council on Affordable Health Insurance, New England states have a total of 55 unique benefit mandates that are required in some but not all six states. However, only 28 benefit or provider mandates are required in at least half and only 16 in a majority of the New England states. Of these 16, only 10 are mandated in a majority of all 50 states.[8] Thus, having a regional approach to Small Business Health Plans would include mandates reflective of the values of that region, while providing increased competition, more affordable premiums, increased plan offerings and reduced administrative costs for regional insurers. Regional Small Business Health Plans could be in addition to state-based licensed health insurers, providing insurers, like banks, the option of state or regional/federal licensure.

The key is to not be restrictive and allow numerous plan options with competitive premiums. A plan and premium attractive to a 30-year-old single mom working at a small business might not be an attractive value proposition for a 55-year-old married coworker. And any coverage – even a catastrophic plan - is better than being uninsured.

Allow Employees to Easily Pay Their Share of the Premium Pre-Tax with a Section 125 Plan

Currently the process for small businesses to offer a Section 125 plan is cumbersome and difficult, particularly for those very small employers that tend not to offer health coverage in the first place. It is not enough to offer health coverage through the workplace. Employees must be able to pay their share of the premiums pre-tax. In states like Maine with a high 8.5 percent state income tax, the benefits of Section 125 plan is even greater.

Senator Snowe's proposal to simplify the Section 125 process for small employers is a critical step toward making health premiums more affordable. A Maine family in the 15 percent bracket (up to almost $64,000 in taxable income for a married couple) would save over 31 percent by paying for their health premiums pretax – 7.65 percent in FICA, 15 percent in federal income tax and 8.5 percent in Maine income tax. The employer also saves with their reduced FICA obligation on the employee's contribution.

Support Auto-Enrollment in a Default Health Plan

The Pension Protection Act of 2006 allows companies to more easily auto-enroll employees in 401k retirement plans, provided the employer provides a 100 percent match for the first 1 percent of salary and a fifty percent match for the next 2 percent. According to the Employee Benefit Research Institute, employee participation jumps from 65 percent to 90 percent when employees are automatically enrolled.

Why not allow employers to do the same with a default health plan? According to the Kaiser Family Foundation 2006 Annual Benefit Survey, the average HSA-qualified plan with a $2,000 deductible costs $3,176 a year with an employee paying just $467 or $18 per two-week pay period - about $12-14 after tax. Often young and single employees are the least likely to participate in employer-sponsored coverage. Auto enrollment could encourage increased take-up, spread the health risk across a larger pool of employees and draw in a large number of younger and healthier employees, who are more likely to opt out of employer-sponsored health coverage.

For Very Small Businesses and Sole Proprietors, the Individual Market is Critical to Affordable Coverage

Even with changes to the small group market through Small Group Health Plans, Congress needs to consider allow more competition and options in the individual insurance market. For very small business, entrepreneurs and many freelancers and independent contractors, the individual insurance market is the only place to purchase insurance.

Again, Maine has led the way in how not to regulate. The 2006 President of the National Association of Insurance Commissioners and former Maine Insurance Superintendent Alessandro Iuppa candidly stated in a recent interview that "a cluster of regulations that Maine policymakers put in place in the early 1990s [are driving Maine's high health insurance costs]. These include 'guaranteed issue' which requires insurers to offer coverage to anyone who can afford it, regardless of pre-existing conditions; 'guaranteed renewal' which requires them to renew an individual policy even if the policyholder has been a very high user of services; and 'community rating' which regulates how much an insurer can adjust the cost of a coverage from one group to another. While many states have implemented one or two of these consumer protections, the combination of the three creates an especially burdensome environment in Maine that discourages competition and innovation."[9]

Consider a plan for me and my family as an example. In Augusta, Maine, a $10,000 deductible HSA-compatible plan for my family costs $511 a month through Anthem Blue Cross Blue Shield of Maine, a subsidiary of WellPoint. The same $10,000 deductible plan in Alexandria, Virginia would cost my family $145 a month - $4,400 less a year - through UniCare, also a WellPoint subsidiary. Such high individual insurance costs discourage entrepreneurs from setting out a shingle and starting a new business as it is unaffordable to provide even the most catastrophic coverage for their family. Over 20 percent of all Maine private sector employees work for a small

business with less than 10 employees. Again, only seven states have a larger share of employees working for very small business. These seven states have an average individual insurance market that covers 8 percent of all individuals under age 65, 60 percent bigger than Maine's individual insurance market. Regulations matter. Costly individual insurance regulations force people to drop coverage or struggle to afford even the highest deductible plans. They hurt very small business and entrepreneurs both of which are a state's economic drivers creating the vast majority of new jobs.

Drawing from the Small Business Health Plan legislation or Senator DeMint's Health Care Choice Act (S.1015 in the 109th Congress), Congress should consider allowing national or regional individual insurance carriers and plans.

State legislation is pending in Maine that would allow a small group or individual insurance carrier licensed in any New England state to offer those same plans in Maine. This is a state-based attempt to increase competition and provide more affordable options regionally.

Thank you for holding this hearing and allowing me to testify.

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[2] Figures 1, 2 and 4. "Insurance Premium Cost Sharing and Coverage Take-Up." Kaiser Family Foundation. February 2007. Available at: http://www.kff.org/insurance/snapshot/chcm020707oth.cfm. Premiums based on Kaiser Family Foundation/Health Research and Educational Trust, Employer Health Benefits 2006 Annual Survey. Available at: http://www.kff.org/insurance/7527/, page 18.

[3] Information taken from Business Utility Zone Gateway-BUZGate available at: http://www.buzgate.org/ca/ch_anthem.html#what

[4] "Small Group Health Insurers: Employer Information." Maine Bureau of Insurance. February 7, 2007. Available at: http://www.maine.gov/pfr/insurance/employer/snapshot_small_group.htm

[5] Dicken, John. "Private Health Insurance: Number and Market Share of Carriers in the Small Group Health Insurance Market in 2004." Government Accountability Office. October 13, 2005. Available at: http://www.gao.gov/new.items/d06155r.pdf

[6] "Companies Licensed to Offer Small Group Health Plans (1-50) in the State of New Hampshire." New Hampshire Insurance Department. September 11, 2006. Available at: http://www.nh.gov/insurance/consumer_services/cons_small_grp.htm

[7] Table II.C.1. MEPS. Employee-Only Premium. 2004.

[8] Bunce, Victoria Craig, JP Wieske and Vlasta Prikazsky. "Health Insurance Mandates in the States: 2006." Council for Affordable Health Insurance. March 2006. Available at: www.cahi.org/cahi_contents/resources/pdf/MandatePub2006.pdf

[9] Haskell, Meg. "The Man behind the Milestones: Maine's insurance superintendent looks back at decade in office." Bangor Daily News. January 20, 2007. Available at: bangordailynews.com