

**Testimony of**  
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**Insurance**

**on**

**“Alternatives for Easing the Small Business Health Care**  
**Burden”**

**before the**

**Committee on Small Business and Entrepreneurship**  
**United States Senate**

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Mary Beth Senkewicz  
Independent Consultant

Chairman Kerry, Senator Snowe, members of the Committee, I appreciate the opportunity to testify before you today on small businesses and health care insurance. With the ever-increasing numbers of uninsured in our country, it is apparent that the system is not functioning efficiently or fairly. Small businesses have been hit particularly hard.

### **Small Businesses Have More Difficulty**

In order to understand why small businesses are in such difficulty regarding health insurance for their employees, it is helpful to review some basic principles of insurance. Insurance, first and foremost, is about spreading risk. In order to spread risk most efficiently, pools of insureds need to be big rather than small. One saying has it that insurance is about the laws of large numbers. But small businesses are just that – small. One small employer can't be a pool by itself – we saw the terrible consequences of being priced out of the market very quickly when one employee of a small employer became ill back in the days before states enacted small group reform.

### **Georgetown's Triple A Elements**

As Congress contemplates the complex issues surrounding our troubled health care system and financing mechanisms, it is important to keep certain principles in mind to ensure that any proposals are likely to result in a fairer, more stable system. Karen Pollitz and her colleagues at Georgetown have developed a triple A of principles system to consider in thinking through these issues. Her written testimony has been submitted for the record. Any outcome of thoughtful public policy should have these principles fulfilled.

Georgetown's first A is adequacy of coverage. This generally means coverage without holes and Ms. Pollitz' testimony encompasses that concept on several levels. This principle is particularly important because if coverage has holes, it can lead to risk selection. Risk selection results in sicker persons in any pool, thereby driving up premiums. Therefore, any requirement needs to address minimum benefit packages so insurers cannot risk-select by benefit design.

Georgetown's second A is affordability of coverage. This principle is pretty self-evident. The primary reason small businesses don't buy health insurance for their workers, or cut back on benefits, is because it costs too much. Health care costs have spiraled, some would say out of control. That fact is reflected in health insurance premiums. (As an aside, our system will continue to have problems until we can figure out how to contain health care costs.)

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Georgetown's third A is availability of coverage. Some proposals, such as the Durbin-Lincoln bill, try to address this issue by creating regional or national purchasing pools where small businesses can shop for insurance. Georgetown notes that policymakers should be wary of sending small businesses and individuals to shop for insurance in markets where they can be denied coverage or rated up sharply for adverse health conditions, and further notes that health insurance needs to work for people when they are sick. That is absolutely correct. After all, 80% of claims are generated by 20% of insureds. A system that works will cover people who are sick, when they need the coverage the most, rather than having them discover the plan has so many holes as to be almost worthless, or price them out through punitive premium increases. But the only way to cover them when they are sick is to cover them when they are well – to spread the risk as broadly as possible.

### **Pooling**

The principle of pooling needs to be considered. More efficient pooling is necessary to help small businesses with health insurance. Larger pools can spread risk across larger populations with those attendant benefits. Larger pools will also have lower administrative costs, one factor in the price of health insurance. The pools can have rules that treat people fairly and don't kick them when they are down, such as a prohibition against rating up based on health status. The pool can have rules about minimum benefit packages to avoid risk selection. A fair and efficient pooling mechanism will go a long way to stabilizing a market in the long run.

And rules do not necessarily mean less choice. Rules just mean there is a level playing field. Although I would add a word of caution about choice: too much choice can be confusing and anti-efficient. I think we can learn a lesson from Medicare Part D in this regard. Some would argue that choosing from among 45 plans is not particularly efficient for the consumer.

### **Mandates for Coverage, Reinsurance, Tax Credits**

Other mechanisms are being considered as part of the solution. We will hear later about the Massachusetts law, and other states are considering employer and individual mandates. New York has had a positive experience using reinsurance as the primary vehicle in the Healthy New York initiative, and has seen significant increases in insured rates among low-wage workers in small businesses. Reinsurance structures, however, can be quite varied and would need careful study to ensure appropriate insurer participation occurs. I have talked about more efficient pooling, and some are promoting purchasing groups as a vehicle to do that. And tax credits to help small employers with the purchase of insurers are an option on the table.

One common thread running through many of these proposals is subsidies to assist with the purchase of health insurance. The simple fact is health insurance costs a lot of money and a lot of people simply can't afford it. It's going to cost tax dollars to provide subsidies so people can become insured and access the health care system most

efficiently. Employer and individual contributions can contribute to the financing, but some subsidization is almost certainly going to be required.

Thank you for the opportunity to testify. The challenge of promulgating good public policy to address our broken system is enormous, but absolutely necessary. I commend you for starting to address this important challenge early in this 110<sup>th</sup> Congress.