



National **Retail** Federation
The Voice of Retail Worldwide

National Retail Federation Testimony

Hearing on

“Strengthening Employer-Based Health Care”

Subcommittee on Health, Employment, Labor and Pensions

Committee on Education and Labor

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Mr. Chairman, Ranking Member Kline and honored members of the Health, Employment, Labor and Pensions Subcommittee, I thank you for the opportunity to appear before you today and to share our views regarding the employer-based health care system. My name is Neil Trautwein and I am Vice President and Employee Benefits Policy Counsel of the National Retail Federation (NRF).

The National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.6 million U.S. retail establishments, more than 24 million employees - about one in five American workers - and 2008 sales of \$4.6 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations. www.nrf.com.

The retail industry is one of the biggest supporters of the employer-based health insurance system – despite not having an easy workforce population to cover. We have a fairly young workforce (though increasingly with a significant senior cohort) coupled with a high turnover rate. We employ half of all teenagers in the workforce and a third of all workers under 24 years old. More than a third (35 percent) of our workforce is part-time. Two-thirds of our part-time employees are women. Often retail industry employees are second wage earners, mainstays of family economies. Frequently, qualified retail workers opt-out of the coverage we offer because they already have alternative coverage through a family member or another job. Smaller retailers often experience problems making health insurance plan participation requirements because too many employees opt out.

As a labor-intensive industry, retailers are strong advocates of quality and affordable health coverage in order to help keep our employees healthy and productive. As an industry that frequently endures wafer-thin profit margins or worse, we are also well acquainted with the need to manage the collective cost of labor in as cost-effective a manner as is possible. Maintaining balance between these two imperatives is not always easy – it is borderline impossible, even in the best of times ... and these are far from being the best of times.

We hope to work with you and other members of the U.S. House and Senate to bring about enactment this year of real health care reform including meaningful relief from rising health care costs – that is the key, in our view, to reaching universal access to health coverage. Recognizing that health care would be a key priority regardless of the outcome of the November 2008 elections, NRF proposed a comprehensive solution to increasing access to more affordable health coverage in our “Vision for Health Care Reform.” We believe our reform vision can lead to a sustainable path to preserve the voluntary employer-based health care system. Please allow me to first focus on our shared goal of strengthening employer-based health coverage, particularly three key issues that could bear on the future of employer-based health coverage.

Strengthening Employer-Based Health Care

Most everyone loves employer-based health coverage, though the degree of their affection for it varies greatly. Retailers by and large are still committed to this voluntary system, even in tough times like these. We still have an interest in keeping our employees healthy and at work. This mix of compensation – wages and benefits – is a key element in how one employer distinguishes itself from another in attracting employees.

Employer commitment to voluntary coverage is strained by the high cost of care and coverage and the wildly uneven quality of medical care today. We agree with President Obama and OMB Director Orszag that the current cost trajectory is unsustainable. For the reform to succeed and for the sake of our collective financial future, we must bring health care costs back down to earth.

It can be as hard to find quality in health care today as it is to follow the shells in a confidence game. We simply must work together both to demystify health care as well as to make it more accessible and user-friendly. The commitment to health information technology (HIT) already enacted this year will make that task easier, but we will all be challenged by resistance to comparisons on cost and quality.

Threats to Employer-Based Health Care

We strongly urge policymakers to be wary of three reform elements that some would have you consider. A mandate on employers to provide coverage or pay into a public fund would have the perverse effect of reducing jobs or depressing wages. Retailers are struggling particularly in the current environment to keep our doors open. We do not need and cannot afford any new government mandates or minimums on the coverage we offer. Surely maintaining and expanding employment while lowering health care costs should be our collective goal.

We would urge, however, consideration of an individual mandate to obtain basic coverage and leverage voluntary employer contributions with government subsidies to help employees to accept available coverage or purchase other coverage. That is clearly a better and more sustainable path towards universal coverage.

We would also strongly urge you not to disrupt the federal ERISA law that is the crucial backbone of employer-based health coverage. Without ERISA, multistate employers could not offer common benefit plans across state boundaries. We also reject the idea that ERISA preemption should only be granted to plans that meet federal minimums on the composition of benefits or the size of employer contributions to plans. Reducing the number of plans that enjoy ERISA preemption will take most of those employer dollars off the table, further complicating and increasing the cost of our task of reaching universal coverage.

Finally, we urge you to reject efforts to limit or eliminate the tax-favored treatment of employer-provided health insurance – the single largest federal health care expenditure. Efforts to cap or eliminate the employee income tax exclusion could create a backlash against health care reform as employees face higher taxes for benefits over the cap or lesser benefits to fit under the cap.

I would argue that the task of enacting and implementing health care reform will be difficult and controversial enough without exciting large scale employee opposition to it. Taxing or reducing health care coverage for some to fund coverage expansion for others is too high a price to pay.

NRF Vision for Health Care Reform

The National Retail Federation’s Vision for Health Care Reform¹ was approved in final form by the NRF Board of Directors in January 2008. We are proud of this document, but are also flexible enough to look beyond its corners for other good ideas. We are aggressive proponents for enacting the right kinds of health care reform as soon as is possible. We hope to be a nonpartisan ally in this crucial effort.

Elements of our Vision document were recommended by a special Health Care Taskforce and associated Health Care Taskforce Workgroup formed by the NRF Board in 2006. Both groups contained both small and large retailers, chain restaurants and representatives of member state associations. Individual sub-workgroups (Retail Industry and Health Care; Innovation in Health Care; Innovations in Plan Design; and Ongoing Policy Debates) were formed to study the health care crisis in depth before developing these recommendations for the NRF Board. Our Vision document is the product of that intensive review process.

Four Pillars for Reform

The four key elements of the NRF Vision are to: improve health care quality; lower health care costs; increase access to coverage; and reform state health insurance markets. Stated differently, our proposal seeks to increase access to a value-oriented health care and coverage system.

We believe that until we can create better value in health care and coverage, we will never be able to spend enough collectively to expand quality and affordable health coverage to all Americans – a goal we retailers share. The challenge, clearly, will be getting there. Retailers who don’t offer consistent value to their customers don’t survive; amazingly the same is not true for our health care system.

¹ A copy of the complete NRF health care reform proposal is attached at the end of this testimony.

Improving Health Care Quality

We spend more than any other nation on health care but get only middling to poor returns on life expectancy, disease states and other health care quality indices. Connecting the myriad disorganized elements of our health care system through health information technology (HIT) will help, as will development of consumer friendly interoperable electronic personal health records.

One of the biggest changes will be the development of consumer-friendly comparative cost and quality information. An NRF small independent retailer recently testified before another House committee² that: “[his] customers know more about the pet products on [his] shelf than they do about the doctor down the street, and that is not right.” People should be able to select the best quality care just as they choose between retail competitors on a daily basis. Competition encourages lower prices and better quality. More and better competition could do wonders for health care.

Lower Health Care Costs

We believe that the key to making health coverage more accessible lies in reducing its cost. This should be the central goal in all health care reform efforts.

We have identified a number of proposals in this area including: better engaging consumers in self-management and value-conscious shopping for care; promoting wellness and better managing chronic conditions; and preserving the federal ERISA law to help more employers sponsor uniform benefits across state boundaries.

Increase Access to Coverage

As I have noted previously, reducing the cost of health coverage will help many more businesses and individuals gain access to that coverage. Increasing access will help better spread insurance risk and help reduce overall costs.

We believe that we can reach universal coverage (a goal we retailers share) without mandating that employers provide coverage. We would urge the Congress to consider requiring all individuals to obtain a basic level of health coverage and make it as easy as possible for employers to voluntarily offer employees access to coverage.

As noted previously, the problem with employer mandates – either to provide coverage or provide specific coverages – is that they directly increase the cost of coverage and hence the cost of labor. Higher labor costs mean fewer employees to enjoy less coverage: the opposite effect that pro-mandate policymakers seek.

² Dave Ratner (Dave’s Soda and Pet City) on behalf of NRF, House Small Business Committee, February 4, 2009

As rational businesspeople, our members want to employ as many people as they can afford to employ and their business can support. Employer mandated health insurance will distort that balance and leave everyone – including the employer – unhappy. I would surmise that someone would gain from an employer mandate, but who will pay the doctor bills if people don't have jobs? It is a classic lose-lose proposition.

We also continue to support various pooling mechanisms to facilitate purchasing of coverage, particularly for small businesses. We urge policymakers to be wary about trying to transplant the bulky and bureaucratic Massachusetts exchange to other states: there was a particular set of circumstances that helped make the Massachusetts Connector possible. Policymakers might have done just as well (or better) by implementing an electronic portal-type exchange (like the commercial "Travelocity" website, but for health insurance) at lower cost and better choice.

State Insurance Market Reform

In order to help encourage more affordable access to state-based and regulated insurance coverage, we urge steps to help reduce the complexity and expense of state markets. Weeding out or applying sunset dates to coverage mandates, encouraging more flexible plan designs (especially for part-time workers) and shoring up access to high risk pools or carriers of last resort for the medically uninsurable will all help. We would also encourage the states to enact less restrictive rating reforms to help encourage lower-paid employees to obtain coverage and thus reduce costs for older workers in the process.

Building Consensus for Reform

As proud as we are of our Vision for Health Care Reform, we are under no illusion that Congress or the Obama Administration will turn to us and say "oh, there's the final answer." I would venture that there is no industry in America – and practically no American – without big ideas for health care reform. There are quite a few ideas that have appeared in Congress and during the recent Presidential campaign as well. But, we do hope that our Vision will help add to the growing consensus around reform. I would be glad to discuss any of the elements of our proposal that interest you in greater depth.

Our members want, need and expect to see real relief from rising health care costs enacted and are determined to play a positive role in the reform cause. Success will also depend in part on whether a strong pro-reform coalition can be built among the myriad, diverse and frequently contrary interests outside the political process.

It's relatively easy to build a coalition of the disaffected to oppose reform. We hope to work with you to help build a stronger coalition of the eager and willing supporters of reform. The talking phase has gone on for long enough, at least in our view.

Conclusion

Again, NRF greatly appreciates the opportunity to appear before you today. In sum, we urge you to work to create a value-oriented health care system that promotes lower cost and higher quality care and coverage for employers of all sizes and individuals from all walks of life. We urge you to carefully consider the downstream implications of specific proposals on the cost and quality of care and coverage and particularly how different proposals interact. We look forward to working with you to help promote the enactment of positive health care reform.

NRF Vision for Health Care Reform

The retail industry employs one out every five workers in today's economy and is an important source of health coverage for our associates and their dependents. The industry is eager to assist in efforts to improve the quality, cost and access to health coverage. Americans deserve better value for our collective health care dollar. The National Retail Federation supports the following principles to help reform our nation's health care system:

Improve Health Care Quality – we need better value (defined as the quality and cost of care) from our health care system. We spend more than any other country but lag behind other countries in leading health care indicators.

- Promote the implementation of health information technology as quickly as possible to transform health care administration from paper to interoperable electronic records. This will allow health care professionals to better coordinate care and also make timely clinical information available to health care professionals to help reduce medical errors and avoid duplicative or unnecessary procedures.
- Promote the development of an interoperable, electronic Personal Health Record that can be used by licensed health care professionals in any setting and can be used by patients to transfer their medical history as they move from plan to plan.
- Encourage the use of evidence-based medical standards wherever possible.
- Encourage the availability of comparative health cost and quality information (e.g. transparency). Encourage the availability of this information in easy-to-understand consumer guides.
- Encourage a team-based approach to medicine with the patient as an active participant in managing his or her health. (Electronic medical records can help).
- Encourage quality-based payment programs (a.k.a. value-based purchasing) and other payment reforms to encourage the highest quality integrated care.
- Facilitate the reporting of information through financial incentives for providers.

Lower Health Care Costs – the key to making health coverage more accessible is in reducing its cost. The NRF believes effective measures to improve health care service delivery and reduce costs must be a first and central focus of health care reform at any level.

- Support initiatives that serve to engage consumers in managing their health and shopping for high quality and lower cost health care services when needed.
- Promote initiatives to promote wellness within the workforce and better manage and prevent chronic illness conditions.
- Preserve the federal ERISA law to help employers sponsor uniform benefits across state boundaries.
- Permit the medical management of covered benefits (including mental health benefits) to help provide necessary and equitable coverage.
- Enact medical liability reforms to reduce the downstream costs of medical litigation. Reforms should clearly differentiate process failure, human error, negligence and malpractice, including errors caused by obsolete processes and practices.
- Continually work to eliminate waste and inefficiencies in the health care system.
- Establish a “no tolerance” position on fraud and abuse by health care service providers and consumers alike.
- Encourage participation in local and regional reform coalitions that align themselves with broader national initiatives that are consistent with this vision.

Increase Access to Coverage – reducing the cost of health coverage will help many more businesses and individuals gain access. Increasing access will spread insurance risk and help reduce overall costs. In addition, the NRF recommends the following steps:

- Consider requiring individuals to obtain health insurance coverage. Encourage but do not require businesses to offer employees access to coverage.
- Consider voluntary coverage options for part-time workers that emphasize wellness and prevention coverage and help protect against catastrophic health expenses.
- Consider group purchasing or other risk-pooling programs to increase access to coverage for small businesses and individuals. Encourage access to state, regional or national high risk pools or carriers of last resort for the medically uninsurable.
- Consider tax credits for individuals or small businesses to help make coverage more affordable.

- Consider creating personal health savings accounts to accumulate personal savings and voluntary contributions from one or more employers, along with public subsidies or credits and individual funds to help pay for health insurance premiums.
- Add additional flexibility to Health Savings Accounts (HSAs) to make them more attractive to businesses and individuals. Allow Health Reimbursement Arrangements (HRAs) and Flexible Spending Accounts (FSAs) to more effectively coordinate with HSAs. Allow FSA funds to roll over from year to year.

State Insurance Market Reform – in order to encourage more affordable access to state-regulated insurance coverage, the NRF recommends the following principles:

- Help reduce the complexity and cost of coverage by encouraging lawmakers to refrain from passing benefit coverage mandates, employer mandates or mandatory employer contributions.
- Consider setting a sunset date for existing coverage mandates or allowing the coexistence of lower-cost benefit coverage alternatives.
- Consider more flexible plan designs (especially for part-time workers) that emphasize wellness and prevention coverage and help protect against catastrophic health expenses.
- Encourage states to maintain access to high risk pools or carriers of last resort for the medically uninsurable.
- Consider less restrictive rating reforms to encourage younger employees to obtain coverage and thus promote more equitable generational cross-subsidization.

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