

**Statement of Matthew Hisel
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Missoula, Montana**

**Subcommittee on Oversight of the
House Committee on Ways & Means**

Hearing on Small Business Health Insurance Tax Credit

November 15, 2011

Chairman Boustany, Ranking Member Lewis, and members of the Subcommittee on Oversight,

Thank you for the invitation to testify today about the health insurance tax credit enacted as part of the Affordable Care Act. I appreciate the opportunity to share my experiences with health care and with this tax credit as a small employer.

My name is Matthew Hisel, and I am the co-director of Home ReSource, a building materials reuse center in Missoula, Montana. We collect and sell re-usable building materials to reduce waste, build healthier communities, and promote a more vibrant and sustainable local economy. We also partner with a range of work training programs and offer educational classes.

Home ReSource is incorporated as a non-profit under Section 501(c)(3) of the Internal Revenue Code, under a special category for organizations that support resource conservation. Nearly all of our income, about 85 percent, comes from business operations – our building materials store and building dismantling service. Those operations are generally self-sustaining and provide additional revenues to support educational and charitable activities.

I co-founded our business in 2003. When we opened our doors, my co-founder and I were the only people on payroll. Now, we employ between 15 and 20 people.

Health Care at Home ReSource

At Home ReSource, we believe our employees work best when they and their families are healthy, able to access needed health care, and not worrying about medical bankruptcy. Caring about the health of your employees is a small business value we take seriously. For that reason, we've offered health insurance to employees who work more than 30 hours per week since we could first afford to pay for it in 2004, and we pay 100 percent of the premiums for covered employees.

Skyrocketing health care costs have made that increasingly difficult, however. Over the last seven years, we've been hit with double digit rate increases practically every year, sometimes in excess of 30 percent. We've had to shop around for a new plan every year because we just

couldn't absorb the unrelenting increases. We've had to increase our deductibles and other out-of-pocket costs and reduce benefits in order to continue coverage. When we've brought the issue to our employees and explained we'd either need to stop paying the premiums in full or increase the deductible, they chose to increase the deductible.

It's reached the point that the best plan we could afford for the current year has a \$5,200 deductible. It's the kind of insurance that seems to work just fine until something goes wrong – as I can attest to personally from an emergency hospital stay this spring that left me with bills totaling around \$4,000. I had just barely been able to achieve the “American Dream” of home ownership a few years before, and these bills forced me to sell my home.

The ACA Small Employer Tax Credit

In the past year and a half, health care reform has changed our situation significantly – for the better. This is thanks in part to the new health care tax credit, and also to other provisions of the Affordable Care Act that are helping with costs and improving our quality of coverage.

Home ReSource qualifies for the small employer health premium tax credit. For 2010, when we paid \$10,782 for health insurance, this credit cuts our costs by more than \$2,000. For a small business struggling to maintain decent health coverage, that makes all the difference. We were actually considering dropping our health insurance this year, but the tax credit tipped the balance and helped us maintain our coverage. And we anticipate receiving the credit for the next several years as a bridge to a reformed insurance marketplace in 2014.

To questions about whether the credit is too complicated, I can say from experience that I found it quite straightforward. I prepared the worksheet myself to determine if we qualified and it took me less than 10 minutes. All the information I needed was already in our Quickbooks software. Our accountants spent a little over an hour preparing the final forms, at a cost of \$195 to Home ReSource. So we paid \$195 to get more than \$2,000 back. A small business like mine can't ask for a better return on investment than that.

While I was aware of the credit from following the debate over health care reform, I do believe there would be value in a broader education effort to ensure that all small business owners, and their accountants, are aware of the opportunity to claim it.

Also, if utilization of this credit is lower than anticipated, I would encourage you to consider ways to build on the credit and help more businesses benefit. This could be done by raising the top end of the employee threshold to 50 FTEs and the top end of the wage scale to \$75,000. This would ensure that more businesses can benefit from this valuable assistance while other components of the health law that will increase competition and reduce costs phase in over time.

Since the Congressional Budget Office scored this piece of the health law at \$38 billion, I would suggest the responsible thing for Congress to do would be to build on the credit to make sure all of the allocated resources are getting to small businesses to help us with our health care costs, rather than spending time undermining the credit or threatening to take it away from those of us that are benefiting and using it to maintain health coverage for our employees.

Other Immediate Benefits of the ACA to Small Businesses

The tax credit is not the only provision of the Affordable Care Act that's helping us. There are a number of other parts of the law that we're seeing benefits from already. I will highlight three here.

First, there is the required coverage of preventive care with no cost-sharing. Our insurance covered preventive care back in 2004, but we had to drop it the very next year when the renewal was going to cost 39 percent more. I'm glad we have preventive coverage again. Making prevention a priority is good for our employees' health, workplace productivity, and long-term savings in the health care system.

Second, our employees' kids with pre-existing conditions can no longer be denied coverage. I lost one of my best employees before this provision went into effect because he had a child who had Down Syndrome and cancer, and the insurance company refused to cover his child. If the

health reform law had been in effect four years ago, we would have been able to promote this employee to full-time and provide health insurance for him and his child.

And third, our greatest surprise came this spring at renewal time. After years of outrageous rate increases – between 19 and 39 percent, year after year – this year’s increase was only 9 percent. It’s hard to imagine this would be the case without the downward pressure on rates and increased scrutiny of rate increases created by the Affordable Care Act. Combining this with the tax credit, which cut our effective health care costs by more than 20 percent, we’re actually seeing our insurance costs go down by double digits.

Looking Forward to Upcoming Benefits of the ACA

Looking forward, whether you get the tax credit or not, I believe there’s a lot for small business owners to look forward to as more elements of the health law phase in.

Key elements that will help small businesses with better coverage and lower costs include:

State insurance exchanges: In 2014, the opening of the state health insurance exchanges will give small businesses more transparency, better choices, broader risk pooling and more bargaining power by allowing us to band together to shop for coverage. This bargaining power and increased competition are critical to bringing costs under control.

Stronger rate review: The law gives states new tools and resources to strengthen review of insurance rate increases and protect small businesses from unjustified rate hikes. Given the high level of market concentration in the health insurance industry (especially in rural states like Montana) and its negative effects on competition, we need this stronger rate review to protect us from unreasonable and unjustified rate increases.

Minimum medical loss ratio: The minimum medical loss ratio requirement will ensure that small businesses are getting good value for our premium dollars. By requiring insurance companies to spend at least 80 percent of premiums collected from small group and individual

customers on actual health costs or pay a rebate if they fail to meet the requirement, we will increase the value of insurance or decrease its cost – or both.

Reducing cost-shifting: As these provisions help more small businesses get health insurance and pay into the system, businesses that are already providing coverage should see the “hidden tax” we pay now to cover cost-shifting from uncompensated care decrease, lowering our costs overall.

Conclusion

Based on the challenges I’ve experienced with health insurance over the last several years trying to maintain a decent small group plan for my employees, and based on the improvements we’re already seeing thanks to the Affordable Care Act, I believe it is critical that we keep moving forward on health reform with measures like strong rate review, the value for premiums requirement, and the state insurance exchanges.

I also believe we have an opportunity to build on the ACA’s small business tax credit to help more small businesses benefit. This credit serves as a bridge to help us afford coverage as we move toward the exchanges and a reformed marketplace for health insurance. If not enough businesses are making it across the bridge because it’s too narrow, let’s build the bridge wider, not blow it up.

Spiraling health care and insurance costs are one of the major forces driving income disparity to further and further extremes in recent decades. I experienced this force directly when I had to choose between paying medical bills and paying a barely-affordable mortgage. I believe in free enterprise, entrepreneurship and hard work. But the free market only works when there is adequate competition, when consumers have enough choices and influence over prices, and when economic growth occurs across the income spectrum, not just in the top percentiles.

The current health care system allows big insurance companies to have monopoly control over prices, and the rest of us have no choice but to fork over our hard-earned dollars to cover essential health care. Reforming our health care system is one important step toward improving

the overall economy, because more hard-earned dollars will remain in the hands of working Americans who will circulate them, not hoard them.

Helping small business owners and our employees get decent health coverage we can afford is one of the most important things we can do to position small businesses to succeed, grow, and create jobs. For the health of Americans and our economy, it is imperative that we keep moving forward, not backward, on health care reform.

Thank you.