

Testimony of Gary Livengood

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**Before the U.S. House of Representatives' Small Business Subcommittee on Investigations, Oversight
and Regulations concerning "New Medical Loss Ratios: Increasing Health Care Value or Just
Eliminating Jobs"**

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Good Morning. My name is Gary Livengood, and I am a principal of What A Stitch, LLC, a small commercial embroidery company located in Mt. Airy, Maryland. I would like to thank the members of the Small Business Committee for the honor of testifying before you today about the new health reform law. I plan to address my specific concerns about how its medical loss ratio provisions are threatening my access to the services my health insurance agent provides, as well as how the new law may impact my ability to grow my business and provide health coverage to my employees in the future.

To tell you a little bit about me, after serving our country in Vietnam, I worked in a variety of operational positions in the railroad, investigative services and insurance industries for more than 35 years. Then, a few years ago, my wonderful wife, Louann, somehow got me to agree to spend my retirement not on the golf course, like I planned, but on growing her hobby into a business that now employs 21 people.

We started What A Stitch in 2002 with one sewing machine. The company grew and grew, but then, like small-business owners everywhere, we hit very tough times in 2008 and 2009. We are very committed to our employees, so we dug into our savings and kept the doors open during the rough years. I am very proud that, through great personal sacrifice, we were able to retain all of our employees throughout the Great Recession.

While times still aren't great for us, this year has been much better than the last. I wish I could say that even better times are coming for What A Stitch but, unfortunately, the future still looks very uncertain. I know the intent of the new health law was to help business owners like me but, so far, I just don't see it. The new law weighs heavily on my mind every time I think about hiring new employees or how our business may grow and change over the next few years. It has already put regulatory burdens on our

company, due to the required changes to our benefit plan and the grandfathered plan rules. And there are more compliance burdens in our future: the new impending taxes on our premiums, the many notice and reporting requirements, the changes to the way our premium will be calculated, the new essential benefits we'll have to cover, and so on.

Before we started What A Stitch, my wife was a director of human resources for Amtrak and I worked for 13 years, eventually as a vice president of operations, for a small regional HMO that was eventually bought by UnitedHealthcare. Due to our professional backgrounds, my wife and I may know a little bit more about the administration of group health insurance than your average small-business owners. Consequently, our level of day-to-day reliance on our company's health insurance agent, Paul Younkings, and the company he co-owns, Allied Resource Management, is much less extensive than what other small-business owners I know need.

In insurance, we often talk about the 80/20 rule, meaning that about 20 percent of the clients use 80 percent of the services. We are one of Paul's clients who falls soundly in the 80 percent. Unlike many small-business owners, we don't call our agent every day to help us out of jams. We do trust him implicitly, though, and over the years he has come to know us, our employees and the needs of our company well. Paul is our regular source of information about our compliance responsibilities, which is a service that's become increasingly important as health reform is implemented. We rely on him each year when our policy renews to help us provide the best benefits for our employees at the best possible price. We also call on him occasionally to help us with benefit issues that we can't easily resolve. When we do that, it is very comforting to just tell him what the problem is and then hang up the phone and get back to work knowing that it's Paul's problem now. We have complete confidence he will be able to leverage his relationships within the benefit community and reach an expedient solution on our behalf.

Even with our extensive personal experience in the employee benefit world, Louann and I would never consider dropping the services of our agent. He's our insurance policy within an insurance policy. So far, our company and employees have been lucky. We haven't had a claims disaster or a medical crisis to overcome that would require the full use of Paul's capabilities. I know some of his other clients have those kinds of service needs, and other health insurance agents like Paul provide far-reaching services to small-business owners across the country. That's why I am more than happy to pay our agent's commission each month. I understand at any time our company could have similar needs. Eventually,

all health care consumers have a serious benefit problem to address. If and when our when our day comes, I want my employees and family to have someone we know and trust in our corner. My company will need a professional benefit specialist who will work tirelessly at no additional cost to us so my wife and I will be able to focus on keeping our company profitable.

Our agent is a businessman like I am, and he deserves to make a fair living for the services he provides. When I pay our company's insurance premiums each month, it's clear that a portion of my check is really our agent's fee that is included in our bill for tax and convenience purposes. Also, it's obvious that our company's total insurance premium rate has nothing to do with the amount our agent gets paid. Our premium costs are driven by the cost of medical care in Maryland and the age and size of our group of employees. Paul's fee is just a small percentage of whatever our insurance premium will be, and it is worth every penny.

Unfortunately, it's my understanding that the new health reform law's medical loss ratio requirements are having a profound impact on both Paul's business and on all similar businesses nationally. In Maryland, commissions on group policies like mine have been cut by 15 percent or more, which means that Paul's overall business revenue is down significantly. In other states, I hear agents have it far worse. My company just went through several years of declining revenue, and it was extremely difficult to keep our doors open. So I feel for Paul on a personal level.

I also have strong feeling about how this will impact our company. If our agent is forced out of business by the new law, I will have to think very, very seriously about whether or not it will be feasible to continue to provide benefits to our employees. I don't think I will be able to handle the new compliance burdens coming without professional help.

If Paul needs to change the nature of his business and can't afford to handle our account anymore, there is a good chance we will just drop our group coverage, save the money we put into our employee's premiums, and let our employees purchase individual coverage through the new health insurance exchanges. Although if the government takes over our benefits, such as through these new health insurance exchanges, I am hard-pressed to believe that my employees and I will have access to the same kind of customer service that Paul and his company provide.

Obviously, the cost of our health insurance premiums is very important to me, and I dare to say to every American small-business owner. I believe Americans need to take serious steps to get health care costs under control. But to try to do so by over-regulating and cutting the payments to insurance agents and brokers who assist consumers like me is completely missing the forest for the trees.

When I think back on our decision to open What A Stitch nine years ago, knowing what I know now, I am not sure we would make the same choice again. We had no idea the regulatory burden would be this significant.

I would strongly encourage all members of this committee to take a serious look at the strain the new health reform law is putting on companies like ours, as well as on other small businesses like our insurance agency, Allied Resource Management. The first place I suggest you look to for improvements is the section of the law addressing medical loss ratios, so that business owners like me will not have to worry about losing continued access to our health insurance agents and brokers.

Thank you for the honor of testifying before the subcommittee today. If you have any questions, I would be glad to answer them at the appropriate time.