

**"The Impact of the Patient Protection and Affordable  
Care Act on Job Creators and the Economy"**

**Testimony of:**

**Michael Fredrich  
President and Owner  
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Manitowoc, Wisconsin**

**Before the**

**Committee on Oversight and Government Reform  
United States House of Representatives**

**July 10, 2012**

**The Honorable Darrell Issa, Chairman  
The Honorable Elija Cummings, Ranking Member**

Good afternoon Chairman Issa, Ranking Member Cummings and members of the Committee. Thank you for hosting this important hearing today and for your invitation to provide testimony. My name is Michael Fredrich, President of Manitowoc Custom Molding, LLC (MCM Composites). MCM Composites produces a wide range of precision products from many different raw materials. We specialize in thermoset plastic molding, enabling us to focus our capital and effort on continually improving our thermoset knowledge, expertise and technical capabilities.

**Company Background** MCM Composites is a small manufacturing company located in Manitowoc, Wisconsin. Our business is the custom molding of thermoset composites parts, which are used in a variety of applications across a broad spectrum of industries ranging from cookware to aerospace. We do not have our own product line. All of our products are used in other manufacturers' products and therefore we must compete with companies not only in the USA but also around the world.

In 2011 our revenue was \$6.9 million on which we managed to eke out a pre-tax profit of \$138,000. I emphasize pre-tax income because MCM, like most small companies, is structured as a pass-through entity for tax purposes, e.g. the profits are passed through to the owner's individual tax return so my taxable income is increased by the profit of the company.

MCM currently has 58 non-union employees. Over the past several years we have added 12 people in production -- none in support. We, like all small businesses, only hire people when the demand for our products increases and we need additional people to fill orders. New employees are generally brought in through a temporary help firm. The highest salary in our company is \$83,000 (not me). The lowest entry-level wage is \$8.50 per hour and the highest hourly wage is \$22.00 per hour. The average is \$12.40. In addition to salaries and hourly wages we have performance incentives. Hourly employees can earn an additional \$100 per month and salaried employees receive a bonus based upon pre-tax income. We are a typical small business.

**Health Insurance** Many times in company meetings I have told our employees that I did not buy MCM to be in the health insurance business, yet here we are today. It is not a market-based system. I believe the system is where it is today because it lacks market discipline, incentives and competition. MCM offers a Health Savings Account (HSA) plan with a deductible of \$2,500 for single coverage and \$5,000 for family and limited family coverage. Preventative care is covered with no deductible. Monthly premiums are \$335 for single, \$703 for employee/spouse, \$653 for employee/children, and \$1,021 for family. MCM pays 70% of the premium and employees pay 30%. Our employee participation rate is 43%. This does not mean that 57% are uninsured. Many have insurance through their spouse.

When HSA plans became available we converted our health insurance to an HSA plan immediately. It was, and still is, my firm belief that the only solution to rising health care costs is a market-based system. Our employees were skeptical because they felt they were paying a premium and getting nothing in return. The simple rebuttal was they pay a premium for auto and home insurance and receive nothing in return unless they have an accident or their home is damaged. There is a cognitive disconnect when it comes to health care. Many consumers do not look at it like auto or home insurance. My employees very much appreciate their HSAs, especially the flexibility it gives them. We need to build on this successful model.

**MCM and the Patient Protection and Affordable Care Act (PPACA)** Now that the U.S. Supreme Court has ruled PPACA constitutional, I must begin serious planning to protect MCM Composites and all the jobs and livelihoods that PPACA threatens.

Given our size of 58 employees we are close enough to the “large employer” cutoff of 50 employees to have three apparent options (all bad) if the law stands.

These options include:

### **Option #1—Cut Employees**

We could reduce our total employee count to 49 or lower and never allow it to increase above the cut-off. It would be hard to explain to the employees we would be forced to cut that the reason they are being terminated is a federal mandate that makes it uneconomical to employ them.

It would be our plan to continue our current health insurance as long as it is affordable and available. As the market (such as it is) adjusts it is doubtful that our plan will remain either available, affordable, or even legal under PPACA in which case we will discontinue offering health insurance.

The downside to this option is the damage done to the people discharged. They have done nothing wrong and will not understand that we must do what is necessary to protect the remaining jobs. Some of our customers will suffer as we may not be able to continue to supply their parts. MCM Composites will be less competitive in the global marketplace. Our senior managers will suffer because we will not be able to grow our business, which will affect their bonuses and career upside. The company will suffer as we will stagnate. The community will suffer because stable jobs are not that easy to find.

### **Option #2----Keep Employees and Keep Plan**

Assuming our current plan is available, affordable and legal we could continue on as we are now. Undoubtedly, however, we will have employees who will apply for and receive credits for exchange coverage, which will trigger the \$3,000 penalty. We currently have employees who have access to our health insurance but instead receive the overly generous Wisconsin Medicaid (a/k/a BadgerCare). Some of our employees have refused to accept pay increases or asked us to not include overtime earnings when we report their earnings so they can

qualify. The same behavior will exhibit itself under PPACA. Ultimately people will migrate to the exchanges as our plan becomes more expensive or is unavailable.

### **Option #3---Keep Employees and Eliminate Insurance**

On paper this is the best option. Our gross annualized premium is \$141,000. Our net premium is \$98,700 (company pays 70% employee pays 30%). The penalty for not offering insurance is \$2,000 per employee for the number of full-time employees over 30. At our current count (58) our penalty would be  $(58-30) \times \$2,000$  or \$56,000. Our savings would be \$42,700. I suspect many companies will stop at this level of analysis because that is what is seen. What is not seen is that nothing has been done to reduce the cost of health coverage or medical care. The costs have only shifted and the problem still festers. MCM Composites does not plan to exercise this option unless we have no other choice. Among my business peers, this is a very real option. It is clear that this penalty is actually an incentive to move previously insured people into the exchanges. I view the exchanges as an interim step to a single payer system.

**How did we get to this point?** Our system of employer-supplied health insurance is a result of wage and price controls instituted during World War II. This, coupled with favorable tax treatment, which allows employers to deduct the cost of employee health insurance while not treating the benefit provided to employees as income, has created a dysfunctional market -- a market where third-party payers dominate and the users and suppliers of the service do not know the cost of the service.

On top of this, mandated benefits and regulations at the state level are driving up costs, and small business owners cannot buy health coverage across state lines. We are being held captive to the "market" within our state boundaries, which is not competitive and often unaffordable. The U.S. does not have a competitive health insurance market. Competition – a true national marketplace, coupled

with universal HSAs (or, other consumer-directed innovations) and a liberated market will bring consumers the types of plans they need, and can afford.

PPACA will do nothing to change the fundamental flaws in the health care system. It will exacerbate all the problems it is designed to fix. In fact, it already has. Costs continue to rise, and I don't see how PPACA will lower costs in the future. MCM Composites does not qualify for the small business health care tax credits – we are discriminated against because we employ “too many people” and pay our employees “on average” more than what the government says we should in order to qualify. You would think the government would want to encourage and reward small manufacturing firms like MCM Composites for growing, hiring people and paying them decently. MCM Composites is the type of business the government needs to be rewarding and incentivizing, not punishing. Under PPACA, we are being punished.

I am also concerned about the compliance costs associated with PPACA. Already, tax code and regulatory compliance are costly line items for my company. I believe I am correct in assuming that paperwork and compliance costs to prove number of employees, the value of health insurance provided, proof that you provide “acceptable coverage” as well as other requirements could be quite burdensome for small to mid-size firms.

In my opinion, the best fix to more choices and affordability in health coverage is more competition – real competition. The “largest supercomputer” in the world -- the free market system -- and its billions of iterations per second will work. It always works.

Small business owners across the country are facing the same set of challenges as MCM Composites. Thousands of small businesses across the U.S. taking similar actions as my company means less growth, fewer jobs, low business confidence and economic stagnation. The impact is real, and has serious consequences for U.S. competitiveness and the future of entrepreneurship.

Thank you and I look forward to your questions.

**Michael J. Fredrich, Bio**

President and Owner of MCM Composites, LLC since 2001.

Prior experience: Debt restructuring and corporate turnarounds,  
commercial banking

Education: BS Nuclear Engineering, MBA Finance from UW-Madison

Committee on Oversight and Government Reform  
Witness Disclosure Requirement – "Truth in Testimony"  
Required by House Rule XI, Clause 2(g)(5)

Name:

MICHAEL J. FREDRICH

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2009. Include the source and amount of each grant or contract.

NONE

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

NONE

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2009, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

NONE

I certify that the above information is true and correct.

Signature:

Michael J. Fredrich

Date:

7-5-12