



*Small business owners. Small business values.*

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February 9, 2011

The Honorable Darrell Issa  
Chairman  
Committee on Oversight & Government Reform  
U.S. House of Representatives  
2157 Rayburn House Office Building  
Washington, DC 20515

The Honorable Elijah Cummings  
Ranking Member  
Committee on Oversight & Government Reform  
U.S. House of Representatives  
2157 Rayburn House Office Building  
Washington, DC 20515

**Re: Hearing on “Regulatory Impediments to Job Creation” on February 10, 2011**

Dear Chairman Issa and Ranking Member Cummings,

We appreciate this opportunity to provide input on behalf of the small business owners in the Main Street Alliance network for your February 10 hearing on “regulatory impediments to job creation.”

The Main Street Alliance is a national network of small businesses dedicated to ensuring that small business owners have the opportunity to speak for ourselves on issues that impact our businesses, our employees, and our local economies. As small business owners (a caterer and a cabinet maker) ourselves, we have both had the privilege and opportunity to testify before committees of Congress, sharing our direct experiences and the views of other business owners in our network. We know the country counts on small businesses to be engines of job creation, and we appreciate your interest in small business perspectives on pressing public policy issues.

The focus of this hearing suggests that the barriers to job creation in the current economy are primarily regulatory. As small business owners, this has not been our experience. In fact, in our experience the two leading impediments to job creation – the decimation of our customer base brought on by the 2008 financial crisis and Great Recession, and the continuing escalation of runaway health insurance costs – stem not from too much regulation but from just the opposite: too little.

Small businesses need effective regulation to ensure a level playing field and to make sure markets work as they should: to promote competition that drives innovation, produces value for consumers, and supports job creation. The health care arena is a prime example of how the absence of effective oversight has harmed small businesses, and we will focus the balance of this letter on that topic.

As small business owners, we have been left at the whim and mercy of the health insurance companies for decades, with no mechanisms to control runaway rate increases or demand accountability and value for our premium dollars. The new health care law (the Patient Protection and Affordable Care Act, or ACA) is finally changing that: from the small business tax credits to new protections like rate review and a value for premiums requirement, the health law is already throwing a lifeline to small businesses, creating opportunities for businesses to offer health coverage, save money on premiums, and plow those savings back into business investment and job creation.

While some may raise concerns about the employer responsibility requirement for businesses with more than 50 workers, the fact remains that over 95 percent of our nation's businesses have less than 50 workers (and so would not be subject to this requirement), and 95 percent of businesses with more than 50 workers already offer health coverage. Indeed, this provision only reinforces what the vast majority of larger employers already do, and ensures that responsible employers who offer good-paying jobs with health benefits aren't undercut by competitors who shun these responsibilities.

A much bigger issue – indeed, a true threat to small businesses and our ability to create jobs – is runaway health insurance premiums that have run roughshod over small businesses in the absence of effective oversight mechanisms. For example, in early 2010 (before the health care law was passed), one of us received a letter from our insurer offering to renew our current coverage... at an eye-popping 124 percent increase. This is what an unregulated health insurance market, without any checks and balances or mechanism for insurer accountability, has to offer to small businesses, and it is simply not sustainable.

Thankfully, the health care law includes a series of provisions that will begin to rein in these increases and cut costs for small businesses like ours. These provisions include:

#### **Small Employer Health Premium Tax Credits**

Business owners in our network from Portland, Maine to Portland, Oregon are already benefiting from the new tax credits effective for tax year 2010. Jim Houser, owner of Hawthorne Auto Clinic in Portland, Oregon with 15 employees, expects to receive a credit of between \$5,000 and \$10,000 on his health insurance bill. That's serious savings for a small business. Jim has described the tax credit as a "time machine," turning the clock back on his insurance rates.

#### **Premium Rate Review**

After years of enduring double-digit rate increases with no recourse, small businesses like ours are encouraged that our states have new tools and new resources to review insurance rates and require insurers to provide justification for unreasonable rate increases. This is one of the most direct ways to protect small businesses and help us do our part to create jobs and grow the economy. There is a high level of market concentration in the health insurance industry and true competition – competition based on consumer value rather than competition based on cherry-picking risk pools – is largely absent. That is why we need robust rate review to ensure that small businesses are getting a fair shake.

#### **Medical Loss Ratio Requirements**

As small business people, we understand that the most important thing about a business is the value you provide to your customers. Yet the insurance industry has lost sight of that. The new minimum medical loss ratio requirements will restore a focus on providing us with value for our premium dollars. And if insurers fail to meet this basic standard, insurance customers like us will receive cash rebates starting next year – potentially to the tune of hundreds of millions of dollars.

#### **State Insurance Exchanges**

The state insurance exchanges due to come online in 2014 will level the playing field for small businesses. By creating a mechanism whereby we can band together and shop for coverage in one large pool, the exchanges will give us bargaining power, risk pooling, and greater choice.

The repeal of the health law or the undermining of its core provisions would cause serious harm to small businesses (see attached fact sheet). Certainly, there are improvements that can and must be made to the law. The 1099 reporting provisions and the paperwork burden they would create demand your attention. We were heartened that a majority of House members voted to fix this problem last summer (HR 5982, 7/30/2010), and we are confident that the current Congress will get this issue solved with appropriate speed. We are also confident this bi-partisan improvement can be made without undermining the core cost containment provisions and other protections contained in the Affordable Care Act.

The year 2010 saw a dramatic uptick in the percentage of small businesses offering health coverage: among businesses with 3-199 employees, the offer rate increased by 9 percentage points; among those with 3-9 employees, the offer rate increased 13 points, from 46 percent to 59 percent. News reports from the state level indicate that small businesses are taking advantage of the health law's benefits to start offering or coverage:

- Blue Cross Blue Shield of Kansas City recently reported that after letting local businesses know about the new tax credit, they enrolled more than 9,000 new members covered by 400 new employers. The company reported a 58 percent increase in small businesses purchasing insurance since April 2010, the first month after the passage of the ACA.
- Blue Cross and Blue Shield of Nebraska reported a 34 percent increase in health insurance sales to small businesses for the new year.
- A spokeswoman for Blue Cross of Idaho reported a "huge increase" in the number of small employers requesting quotes, and a shift in employers keeping coverage for their workers.

These are promising trends. We need to keep moving forward on health care, not return to the flawed system of the past, in order to help small businesses do our part for jobs and the economy.

With proper implementation of the health care law and effective regulations, we can truly level the playing field for small businesses like ours, stabilizing our health insurance costs and allowing us to focus on what we do best: creating jobs and providing important goods and services to communities across America.

On behalf of small business owners across our network, we appreciate this opportunity to share our experiences for your consideration.

Thank you, on behalf of the Main Street Alliance Executive Committee,



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## Bad for the Bottom Line: How Rolling Back the Affordable Care Act Would Harm Small Businesses

### Small Businesses are Moving Forward on Health Care

The percentage of small businesses offering health coverage to their employees rose significantly in 2010. For businesses with 3-199 employees, the health insurance offer rate increased 9 percentage points. This increase was driven by an even greater spike among the smallest businesses: the offer rate among businesses with 3-9 workers rose 13 percentage points, from 46 percent to 59 percent.<sup>1</sup>

### Repeal of the Affordable Care Act Would Harm America's Small Businesses

Attempts to cast repeal of the Affordable Care Act (ACA) as "good for small businesses" obscure what repeal would actually do. Here are the facts:

#### Repeal would raise taxes for small businesses that qualify for the new premium tax credits.

- Starting for tax year 2010, small businesses may be eligible for health premium tax credits valued at **\$38 billion** over a ten year period.<sup>2</sup> As many as **4 million businesses** may qualify for a credit, and about **1.2 million businesses** could qualify for the maximum credit of 35 percent of their insurance contributions (increasing to 50 percent in 2014).<sup>3</sup>
- Up to **16.6 million people** are employees of small businesses that will be eligible for the credit between 2010-2013.<sup>4</sup>

#### Repeal would leave small businesses vulnerable to continuing price gouging by insurers.

- The ACA gives states new tools and resources to require insurers to justify their rate increases.
- Without robust rate review, insurers will continue to raise rates at their whim. The most recent example: Blue Shield of California, which recently announced combined rate hikes of up to **59 percent**, and then thumbed its nose at the state's insurance commissioner when he attempted to delay the hikes.<sup>5</sup>

#### Repeal would eliminate the guarantee of a basic standard of value for premium dollars.

- Under the ACA, if insurers fail to meet new minimum medical loss ratios (MLR), they'll owe a rebate to customers.
- Projections for the small group market give a mid range estimate of **\$226 million** in rebates, or about **\$312 per person receiving a rebate**, for 2011. Individual market estimates add another **\$521 million**.<sup>6</sup>

#### Repeal would gut consumer protections for small business owners, employees, and their families.

- The ACA puts in place important consumer protections: for example, a ban on pre-existing condition exclusions, new limits on insurance caps, and the ability to keep children covered up to age 26. These protections directly benefit health insurance customers in the small group and individual markets where small businesses get coverage.

#### Repeal would renege on the promise of choice, bargaining power, and risk pooling in insurance exchanges.

- Starting in 2014, small businesses with up to 50 employees (100 in some states) and self-employed people will be able to band together to shop for coverage in state insurance exchanges, gaining bargaining power and leveling the playing field with insurers. An estimated **29 million people** will get coverage through the exchanges by 2019 (**5 million** in small businesses that buy in as a group, and **24 million** more buying in on their own).<sup>7</sup>

#### Repeal would be bad for our national bottom line.

- The Congressional Budget Office estimated the repeal bill would add **\$230 billion** to the federal deficit over 10 years, and much more over the following decade.

**The final word on health care repeal: It's bad business for small business.**

<sup>1</sup> Kaiser Family Foundation and Health Research & Educational Trust, "Employer Health Benefits: 2010 Annual Survey," September 2010, p. 38, <http://ehbs.kff.org/pdf/2010/8085.pdf>.

<sup>2</sup> Congressional Budget Office letter to Senate Majority Leader Harry Reid, December 19, 2009, p. 6, [http://www.cbo.gov/ftpdocs/108xx/doc10868/12-19-Reid\\_Letter\\_Managers\\_Correction\\_Noted.pdf](http://www.cbo.gov/ftpdocs/108xx/doc10868/12-19-Reid_Letter_Managers_Correction_Noted.pdf).

<sup>3</sup> Families USA and Small Business Majority, "A Helping Hand for Small Businesses: Small Business Tax Credits," July 2010, pp. 3-4, <http://www.familiesusa.org/assets/pdfs/health-reform/Helping-Small-Businesses.pdf>.

<sup>4</sup> S. R. Collins, K. Davis, J. L. Nicholson, and K. Stremikis, "Realizing Health Reform's Potential: Small Businesses and the Affordable Care Act of 2010," The Commonwealth Fund, September 2010, p. 7 [hereinafter Collins].

<sup>5</sup> Bobby Caina Calvin, "Blue Shield stands by California health care premium hikes," *Sacramento Bee*, January 15, 2011, <http://www.sacbee.com/2011/01/15/3325248/blue-shield-stands-by-california.html>.

<sup>6</sup> Federal Register / Vol. 75, No. 230 / Wednesday, December 1, 2010 / Rules and Regulations, pp. 74907-74908, <http://edocket.access.gpo.gov/2010/pdf/2010-29596.pdf>.

<sup>7</sup> Congressional Budget Office letter to House Speaker Nancy Pelosi, March 20, 2010, p. 9, <http://www.cbo.gov/ftpdocs/113xx/doc11379/AmendReconProp.pdf>.